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LEGISLATIVE HEARING ON S. 346, A BILL TO AMEND THE OFFICE OF FEDERAL PROCUREMENT POLICY ACT TO ESTABLISH A GOVERNMENTWIDE POLICY REQUIRING COMPETITION IN CERTAIN PROCUREMENTS FROM FEDERAL PRISON INDUSTRIES

HEARING

BEFORE THE

FINANCIAL MANAGEMENT, THE BUDGET, AND INTERNATIONAL SECURITY SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

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WEDNESDAY, APRIL 7, 2004

U.S. SENATE,
SUBCOMMITTEE ON FINANCIAL MANAGEMENT,
THE BUDGET, AND INTERNATIONAL SECURITY,
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:09 p.m., in room SD–342, Dirksen Senate Office Building, Hon. Peter G. Fitzgerald, Chairman of the Subcommittee, presiding.

Present: Senators Fitzgerald, Levin, and Pryor.

OPENING STATEMENT OF SENATOR FITZGERALD

Senator FITZGERALD. The hearing will come to order. I would like to get underway right away, even though we have some Senators who are just getting back from lunch and will be joining us shortly. We have two roll call votes on the floor beginning at 2:15 p.m. I think we can safely go up to almost 2:30 p.m. before we break for those votes. I see Senator Thomas from Wyoming is already here waiting patiently, so I will begin with my opening statement and then we will proceed to Senator Thomas, and to any other Senators who will be joining us by that time.

Today, we consider S. 346, a bill introduced by Senator Levin, Senator Thomas, and others to amend Federal procurement policy as it affects certain procurements from Federal Prison Industries, FPI. The bill has been referred to this Subcommittee, and today's hearing will provide an opportunity to assess the implications of the legislation for the Federal Prison Industries program.

I want to thank Senator Thomas for being here today. We will also be joined later by Senator Stabenow, and we will hear from the Director of the Federal Bureau of Prisons, a senior procurement official from the GSA, and other well-informed stakeholders who hold diverse views on the bill and on the Federal Prison Industries program.

Federal Prison Industries, Inc., which operates under the trade name UNICOR, was established in 1934 to provide job training opportunities to Federal inmates by employing them to produce goods

and services for Federal agencies. UNICOR has 111 factories in over 70 locations and employs nearly 22,000 inmate workers, which represents 22 percent of the prison population that is eligible for such employment opportunities. UNICOR has eight business groups: Clothing and textiles, electronics, fleet management and vehicular components, office furniture, graphics, industrial products, recycling activities, and services.

One of FPI's services, coincidentally, was highlighted in a hearing this Subcommittee held on March 1 of this year on oversight of the Federal Thrift Savings Plan. Namely, the materials that are provided to millions of TSP participants are printed by inmates from the Federal Prison Industries program.

The Federal Bureau of Prisons reported that as of March 25, 2004, there were 175,952 Federal inmates nationwide. Ninety-three percent of these inmates are male and 7 percent are female. Of this total, approximately 4,800 inmates are confined in four Federal facilities and several halfway houses in my home State of Illinois. Three of these four Federal correctional institutions—in Pekin, Greenville, and Marion—operate prison industries involving metalworking, clothing, textiles, and electronics.

The debate over the proper role of the prison industries programs and the extent to which inmates should be able to perform work that competes with the private sector is literally as old as the Republic. As far back as the 1770's, the Philadelphia Quakers advocated that criminal offenders be set aside from society to become penitent rather than being subjected to harsh corporal or capital punishment, as was the prevailing colonial practice. This advocacy gave rise to the establishment of facilities known as penitentiaries. It became quickly apparent, however, that prisoners fared poorly without some activity or labor. Therefore, during the 19th Century, prison work programs arose and flourished.

Over the years, various forms of prison industry programs were criticized by private sector businesses, labor groups, or inmate rights advocates. In the early 1930's, as the country was deep in the Great Depression, Congress adopted several pieces of legislation to address these controversies. One law established Federal Prison Industries as a government corporation, operated as an internal organization within the Bureau of Prisons. Three other laws, the Smoot-Hawley Act, the Sumners-Ashurst Act, and the Hawes-Cooper Act, impose various restrictions on prison-made goods in interstate commerce. These laws and related executive orders first issued by President Theodore Roosevelt remain in effect to this day.

With limited exceptions, products made by inmates are prohibited from interstate commerce. These laws are silent, however, on the issue of inmate performed services. Over the past 20 years, several State Attorneys General, and more recently the Department of Justice, have issued opinions that such services are legally permissible. Thus, State and Federal Prison Industries programs evolved in which inmates performed certain services, such as recycling and staffing call centers for private companies.

Congress has adopted additional amendments regarding the Federal Prison Industries program over the past few years. Provisions in the Defense Authorization Acts of 2002 and 2003 require that

DOD's contracting officers conduct market research to determine whether FPI's products are comparable to products available from the private sector that best meet the Department's needs in terms of price, quality, and delivery. If DOD determines that FPI's products are not comparable, then a competition is required. A provision in the Consolidated Appropriations Act of 2004 requires all Federal agencies that purchase a product or service offered by FPI to first make a determination that the specific product or service provides the best value to the buying agency.

The bill we are considering today, S. 346, would repeal the "mandatory source" authority found in the 1934 legislation that created Federal Prison Industries. The bill would thus require that all Federal agencies conduct a competition for any products those agencies would otherwise have purchased from FPI on a sole source basis.

The bill provides three exceptions to the competitive bidding requirement. One, the attorney general determines that the FPI cannot reasonably expect fair consideration in a competitive bidding scenario and the award to FPI is necessary to maintain safe and effective prison administration. Two, the product is only available from the FPI. And three, the agency head determines that the product would otherwise be furnished by prison labor abroad.

Additionally, as I previously noted, other existing provisions generally bar the interstate transportation of prison-made goods. S. 346 would also bar prison industry programs at both the Federal and State levels from performing services in the commercial market with inmate labor. While the sole source issue has occupied much of the policy debate, I am aware that the issue of prohibiting inmate-performed services in interstate commerce has generated a great deal of controversy.

Therefore, I look forward to hearing from our witnesses with their views specifically regarding the issue of inmate-performed services.

I know we all appreciate that our prisons are becoming more crowded and that most individuals sent to prison eventually return to our communities. As taxpayers, we all want prisons to be as cost effective to operate as possible and as safe as possible for prison guards. We also expect that inmates who are discharged will be better equipped to reenter society as law-abiding citizens. Extensive research indicates that one of the most critical attributes inmates will need when reentering society is the experience of how to work and the desire to make a gainful living in a legal manner.

How inmates receive work in prison, how this work experience helps maintain discipline within correctional facilities, and the extent to which the products and services inmates produce impact the private sector, both positively and negatively, are some of the issues that today's hearing will explore.

At this point, we are joined by Senator Levin, who is an original cosponsor of S. 346. We have two votes coming up. I wonder if prior to your opening remarks we could permit Senators Thomas and Stabenow to give their opening remarks so they don't have to return after votes, or would you like to make your statements now?

Senator LEVIN. You are Chairman. Whatever you——

Senator FITZGERALD. Do you have the time to give them? They have been waiting, so in the interest of sparing you a round trip

here, why don't we go ahead with Senator Thomas, who was here first, and then we will hear from Senator Stabenow.

Senator Thomas, thank you very much for appearing before this Subcommittee.

TESTIMONY OF HON. CRAIG THOMAS,[1] A U.S. SENATOR FROM THE STATE OF WYOMING

Senator THOMAS. Thank you, Mr. Chairman. Senator Levin, I am glad you are here. I will try and be brief. You have covered it quite well. I want to thank you for having the hearing on S. 346.

I have always been concerned when the government unfairly competes with the private sector, and I think there is evidence that this is the case here. That is why I have worked with my colleague to put together this bill. It establishes a governmentwide policy requiring competition, competition in procurement. I think that is an important word here. We will hear from the American business community that they have been injured and unfairly by monopolistic practices. We will hear from those involved in the government that its impacts and the sole sourcing is cause for concern, and so on.

You have mentioned the background. Currently, I have different numbers than you. About 21,000 Federal prisoners are involved here. That is 12 percent of the Federal prison population of 174,000, so a relatively small amount.

You listed the many different items—office furniture, clothing, electronics, eyewear, mapping, and so on. So it is quite a broad thing, as a matter of fact, and it is important to have prisoners keep working. But this goal should not come at the cost of a government monopoly like FPI now has.

I think this bill is a step forward. It injects competition where we now have a monopoly. It limits unfair government competition with the private sector. This important and timely legislation will eliminate mandatory contracting requirements that Federal agencies are subject to under the Federal Prison Industries. Under current law, all Federal agencies are required to purchase products made by FPI.

Simply put, this will remove that mandatory sourcing requirement. FPI will have to compete with the private sector for Federal contracts. It allows contracting officers within a Federal agency to use competitive procedures for procurement of products as opposed to being forced to use FPI on a sole-source basis. It allows procurement officials to select contracts if they believe FPI can meet the requirements. Products must be offered at a fair and reasonable price as a result of open competition. It places government control of government procurement in the hands of contracting officers rather than the hands of FPI.

Opponents will argue their bill will lead to idle prisoners, resulting in a more dangerous prison environment. Our bill, as you mentioned, allows the attorney general to grant a waiver to this process if a particular contract is deemed essential to the safety and the effective administration of a particular prison.

[1] The prepared statement of Senator Thomas appears in the Appendix on page 40.

This minimizes the unfair competition with the private sector companies, restores the authority and the procurement decisions where it belongs, with the agency contracting officials.

The Department of Defense has had some successes. Senator Shelby included a provision in the 2004 omnibus bill to eliminate FPI mandatory purchases for the Department of Defense. FPI has taken steps to provide some relief from FPI's mandatory sourcing within the Department of Defense and just recently to all Federal agencies.

In fiscal year 2002, FPI was ranked 72 on the list of top 100 DOD contractors. In 2003, the FPI had moved up to 69th, so competition does work. Unfair advantages, of course, exist now. What began in the 1930's as a program to give inmates job skills for reentry into society has become a money-making enterprise. FPI has expanded into a range of products and services offered in the private sector with little Congressional oversight. Congress has the advantage of paying lower wages, of course, between a quarter and a dollar-and-a-quarter, not subject to regulations such as benefits and retirement, health insurance costs, compliance with OSHA and those kinds of things. It has a guaranteed client base.

FPI's mandatory source requirement not only undercuts private employers throughout America, but often costs the American taxpayers more money. So really the bottom line, we are looking for the most efficient government operation we can have, the most efficient business operations, and certainly looking for a need for competition.

So that is what it is all about, competition. Clearly, competitive bidding is a reasonable process that ensures the taxpayers' dollars are being spent to the best and responsibly. I am confident that allowing competition for contracts will save dollars, restore management decisions where they belong, with individual agency officials. The elimination of the mandatory source preference will encourage cost savings and eliminates the monopoly.

I think it is a fairly reasonable thing for us to do. It does not take away all the activities, but makes it competitive for a more efficient government for the taxpayers. Thank you, Mr. Chairman.

Senator FITZGERALD. Senator Thomas, thank you. Senator Stabenow.

TESTIMONY OF HON. DEBBIE STABENOW,[1] A U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator STABENOW. Thank you, Mr. Chairman. It is wonderful to be back before you. A couple of weeks ago, I had the opportunity on a matter to testify in front of you and I want to thank you very much for this hearing. I thank Senator Thomas for his leadership, and I want to particularly thank my colleague from Michigan, Senator Levin, for his leadership on the Department of Defense provisions that are now in the law and for his ongoing leadership on this issue.

I have been involved in this issue for some time. When I was in the Michigan legislature, I chaired the Small Business Committee and this was a concern I won't tell you how many years ago as we

[1] The prepared statement of Senator Stabenow appears in the Appendix on page 43.

worked through various issues with prison industries and other government services.

Coming to the House of Representatives, I was pleased to be a cosponsor of Congressman Pete Hoekstra's bill. I am very pleased to see that has now passed the House and we are looking forward to, I think, the ability to bring this bill before the Senate, and hopefully with your support and a strong bipartisan group, we can finally get this done, because it has been a long time in coming for many people who are concerned and affected by this issue.

I am pleased to be a cosponsor of S. 346, and more importantly, I do come representing people in Michigan, businesses in Michigan who are being hurt by the current anti-competitive laws that prevent Michigan businesses from competing against the monopoly called the Federal Prison Industries, Incorporated.

Right now, there is an entity with over $500 million in annual revenues which does not pay local, State, or Federal taxes. It is not required to abide by Federal or State workplace rules, as Senator Thomas indicated, and pays employees between 23 cents an hour and $1.15 an hour. This is not the Chinese government. It is not the Mexican government. This is not India, but a government program established by the U.S. Congress and run by the U.S. Department of Judiciary's Bureau of Prisons. In other words, our own government is, unfortunately, undermining our Nation's manufacturing industry at a very critical time.

As was indicated, in 1934, Congress established Federal Prison Industries and placed it under the control of the Department of Justice's Bureau of Prisons. Its purpose is to serve as a means for managing, training, and rehabilitating inmates. I support that fully. I believe that is a worthy goal and can be achieved in a way that does not have the effect that it is now having.

Under current law, FPI is a mandatory source for the Federal Government, making it the sole source for more than a half-a-billion dollars in Federal contract opportunities. Unfortunately, FPI also has the power to determine whether its products and delivery schedule meet the Federal agencies' needs rather than the buying agency determining whether or not it meets their needs.

Hundreds of small businesses from Michigan and around the country have seen FPI take away jobs from their companies and give them to inmates in Federal prisons, even when these businesses could have supplied the government with a better-quality product on a better timeline at a lower price, and that is really the issue, Mr. Chairman. It is not about whether or not we ought to be training or providing opportunities for people within the walls of our prisons. But when, in fact, businesses can supply a product with better quality, better timeline, lower price, we believe they should have the right to compete and that, in fact, taxpayers would benefit strongly, as well as our communities, from this.

In 2002, FPI's business in two industries that are critical to Michigan's economic health, automotive components and furniture, grew by 216 percent for automotive components and 24 percent in furniture. Furniture manufacturers in West Michigan are in the midst of the worst economic recession in history. Literally every day, Senator Levin and I open the paper and see headlines of busi-

nesses that are closing, of layoffs that are happening in West Michigan.

For example, in January, Steelcase, a West Michigan furniture manufacturer, announced it was cutting 77 of its skilled trades workers, which are some of the most highly skilled and highly paid jobs in the factory. The company extended the layoff warning for 60 days for another 360 employees. Over the last 3 years, the office furniture manufacturing industry has laid off about 30,000 people.

The inability of Michigan businesses to fairly compete with prison industries exacerbates an already difficult economic situation.

According to February 2004 figures from the Bureau of Labor Statistics, Michigan's unemployment rate is 6.6 percent, a full percentage point above the national average. And last year, Michigan lost more jobs than any other State, 78,800 jobs lost in just 1 year. We also had the largest unemployment increase of any State last year. In 2003, Michigan's unemployment went up one percent, the highest increase of any State, and we have lost over 175,000 manufacturing jobs since 2001, which is 19 percent of our manufacturing base.

This issue, and frankly, Michigan is at the heart of America's manufacturing jobs crisis, and this bill can help make a difference.

Mr. Chairman, I want to indicate again that I certainly am not opposed to the 1934 law that created Federal Prison Industries. It is important that prisoners should have work opportunities that build their job skills and enable them to make a successful return to society once they are released. However, it is only fair that our small business owners and manufacturers be able to compete for these Federal contracts if they can offer competitive products and services. Our manufacturers are not asking for an advantage. They are not asking to exclude FPI from competing. All they want is the opportunity to compete fairly and on an equal footing for these contracts.

As I indicated before, because of Senator Levin's leadership, the private sector can now compete for Federal defense contracts. An amendment that was indicated before to the defense authorization bill ended the monopoly on that issue.

At the minimum, it is time to give the private sector access to the playing field and let them compete for Federal contracts. To do so, I am very pleased to be a cosponsor of the bill in front of you, along with colleagues Senators Thomas, Levin, Grassley, Chambliss, and Shelby. The bill will enable Michigan businesses and the rest of America to have an opportunity to compete for contracts with their government.

Senator Thomas also spoke to other provisions in the bill that I will not go into, except to indicate that by holding the hearing, Mr. Chairman, and by giving us an opportunity to be here today, we are very grateful to have the opportunity to speak about this issue and what has been happening. Eliminating FPI's monopoly will make businesses eligible for more than a half-a-billion dollars in business opportunities that translates into critical jobs for our communities, and this is a much needed shot in the arm for many Michigan businesses as well as businesses across the country. Thank you.

Senator FITZGERALD. Thank you, Senator Stabenow.

I am advised that we only have a few minutes before our first vote closes out, so we all have to go to the floor. I am wondering if I could ask one real quick question, and normally you don't ask Senators questions, but the first thing that comes to my mind is your bill would allow private companies to compete with the Federal Prison Industries, where they are now the sole source on all these Federal contracts. How could any private business possibly compete with the FPI if they are paying 25 cents or $1.25 an hour or whatever and they pay no taxes and they don't have to comply with all the regulations that a private company does? So how could they effectively compete?

Senator LEVIN. That is the question every single business owner asks. They say the idea that we are precluded as a business from competing is absurd. It is difficult enough to compete against 25 or 50 cents an hour labor. If they can be so efficient that they can outbid prison industry, for heaven's sake, how can we not allow them to bid? That is what this is all about. But they ask exactly the same question that you do and they throw up their hands at us and they say, my heavens. It is difficult enough to bid against 50 cents an hour labor. To say that we are not even allowed to bid just throws sand in our face.

Senator FITZGERALD. With that, I am advised we only have 2 minutes, so we had all better go. We will reconvene this hearing after the votes. Thank you both very much.

[Recess.]

Senator FITZGERALD. I would like to reconvene this hearing, and at the outset, I would like to note that our Democratic Ranking Member, Senator Akaka, very much wanted to be here but due to an unavoidable scheduling conflict, he is not able to attend today's hearing.

Therefore, I would now like to recognize my colleague, Senator Levin, for his opening statement.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Thank you very much, Mr. Chairman, and again, let me thank you for scheduling this hearing. We are very much indebted to you for doing so. You have an awful lot on your plate and your willingness to take on the hearing in this matter is very much appreciated.

As has been indicated, I, along with Senator Thomas, Senator Stabenow, and a number of other colleagues, introduced a bill which is really based on a straightforward premise, which is that private businesses ought to be allowed to bid for business with their government. It is that simple.

This is not a situation where we have business people saying, how in heaven's name can I compete with 50 cents or a dollar an hour labor? This is a situation where business is saying, we can compete, for whatever reasons there are, we can compete if we are allowed to compete. But when FPI is given the authority to unilaterally and arbitrarily set aside items that cannot be competed, then we have a situation which is totally unacceptable to those who are trying to be productive in the private sector.

This is where businesses just simply say, let us compete. If we can provide something more cheaply or a better product at the

same price, we surely ought to be allowed to offer our government our products. This is our taxpayer dollars. These are our jobs.

There are all kinds of reasons why we want people in prison to work, and I know that personally from my own experience. As I indicated to our Chairman, I represented indigents full time who were in prison for many years as an appellate defender in Michigan, and my father was on the Prison Commission. So I understand personally, up close and personal, how important it is to have prisoners work.

But there is no way in good conscience that we can tell people in the private sector who are in business trying to make ends meet that that interest comes ahead of their being allowed to compete, to offer their government a price and a product. We can't look a business person in the eye and say that, even though there is value obviously in having people in prison work. We can't deny the opportunity to the private sector to offer a product to their government. It is their taxes which are paying for these items.

So we made some progress on this matter, Mr. Chairman, as has been indicated. We had a vote on the Senate floor in the defense bill. It was 74 to 24. It was a hotly debated issue. This is not one of the many amendments that we were able to work out and perhaps get added in a manager's amendment or what have you. This was a hotly debated issue. This was an amendment on the defense authorization bill, which, if I remember, Senator Phil Gramm tried to strike and there was about a three-to-one vote in the Senate to eliminate the Federal Prison Industries monopoly, this unilateral ability to set aside items so that nobody can bid on them in the area of defense purchasing.

It has been in effect now for a couple of years. FPI has gained some business and lost some business during this year. But at least people have been able to compete. The sales of the FPI to the Department of Defense have remained relatively constant. There have been some gains and some losses relative to Defense Department items. In some areas, the private sector has gained significantly when they have been allowed to bid, and in other areas, the prison industries have gained.

So the amount of defense business has been roughly the same, but it sure is different from the drastic decline which was predicted when we introduced this amendment. I mean, we had people coming before us that said we are going to put prisons out of business in terms of getting jobs to inmates and that has not happened.

So we also, in the House of Representatives, Mr. Chairman, a bill was passed which would make this reform applicable governmentwide, and to do that on a permanent basis. That won in the House of Representatives by a vote of 350 to 65.

So the ball is now in our court to try to address the issue of whether or not there should be a governmentwide application of this very fundamental principle, which is that people in private business ought to have an opportunity to bid when it comes to offering services and products to their own government. It really is that direct and that simple an issue.

I want to just thank you again, Mr. Chairman, for chairing these hearings.

Senator FITZGERALD. Thank you, Senator.

I have invited Senator Thomas to sit up here on the dais and join in the questioning with us. Thank you, Senator Thomas, for joining us.

I would now like to introduce our second panel, and they are all seated. We appreciate your being here.

Our first witness on this panel is Harley G. Lappin, who has served as the Director of the Federal Bureau of Prisons since April 2003. Mr. Lappin has had a distinguished career with the Federal Bureau of Prisons and he is the seventh Director of the Bureau since its establishment in 1930. As Director, Mr. Lappin oversees the operations of 104 Federal institutions, six regional offices, two staff training centers, and 28 community corrections offices located throughout the United States.

Prior to serving as Director, Mr. Lappin served as Warden at the Federal Correctional Institution at Butner, North Carolina; as Warden at the U.S. Penitentiary in Terra Haute, Indiana; and as Regional Director of the Mid-Atlantic Region for the Bureau of Prisons.

Our second witness is Jack R. Williams, who serves as the Assistant Regional Administrator for the General Services Administration's Mid-Atlantic and National Capital Regions, headquartered in Philadelphia. In this role, Mr. Williams oversees the Federal Supply Service in GSA's Region 3. His management responsibilities include the National Furniture Center, which negotiates and purchases all furniture and furnishings for the Federal Government's facilities throughout the country and around the world.

In 2001, under Mr. Williams' leadership, the National Furniture Center was selected as the most innovative GSA acquisition center by the Coalition for Government Procurement for making significant strides in the promotion and utilization of the GSA Multiple Award Schedules program.

Our third witness is John M. Palatiello, who is representing the U.S. Chamber of Commerce. Mr. Palatiello is President of MAPPS, the Management Association for Private Photogrammetric Surveys, a national association of firms in the mapping, spatial data, and geographic information systems field. Mr. Palatiello is a member of the U.S. Chamber of Commerce and has been serving as the Chair of the Chamber's Privatization and Procurement Council. The U.S. Chamber is the fourth largest federation of business organizations, representing more than three million businesses and professional organizations of every size, sector, and region of the country.

Fourth, we have Kurt Weiss, who is here today representing the Independent Office Products and Furniture Dealers Association. His organization is the national trade association for independent dealers of office products and office furniture. The association is composed of two membership divisions: The National Office Products Alliances, representing office product dealers and their trading partners, and the Office Furniture Dealers Alliance, representing office furniture dealers and their trading partners. Mr. Weiss is also Senior Vice President and General Manager of U.S. Business Interiors, which is a dealer for Steelcase, the world's leading designer and manufacturer of office furnishings.

Our fifth witness is Andrew S. Linder, who is a member of the Correctional Vendors Association. The association represents busi-

nesses that currently hold contracts with Federal Prison Industries and are concerned about the impact of S. 346 on their companies' sales and jobs. Mr. Linder is the President and small business owner of Power Connector, Inc., an electronics business based in Long Island, New York, that he has operated since he started the company in April 1987. Mr. Linder's company manufactures products, primarily in the area of electronic connectors and cable hardware, for Federal Prison Industries, the Department of Defense, and the Nation's primary defense contractors.

Our sixth and final witness on the panel is Philip W. Glover, the President of the Council of Prison Locals for the American Federation of Government Employees, AFGE. Mr. Glover has served as a correctional officer since 1990 at the Federal Correctional Institution in Loretto, Pennsylvania. Mr. Glover was elected President of Local 3951 at FCI Loretto in 1992, Northeast Regional Vice President in 1994, and President of the Council in 1997. He has extensive firsthand knowledge of how prison industries decrease recidivism and help corrections officers maintain order within the prisons.

Again, I would like to thank our witnesses for being here today to testify. In the interest of time, your full statements will be included in the record and we ask that you limit your opening remarks to 5 minutes. Since we have such a large panel, we will adhere to the 5-minute rule to ensure there is sufficient time for questions, so if you could watch the light on the table, and when it is red, you should stop. You should begin thinking about stopping when you see the yellow, too. But you are ready to go when it turns green.

Mr. Lappin, thank you for being here.

TESTIMONY OF HARLEY G. LAPPIN,[1] DIRECTOR, FEDERAL BUREAU OF PRISONS

Mr. LAPPIN. Good afternoon, Chairman Fitzgerald and Members of the Subcommittee. I appreciate the opportunity to be before you today. As Director of the Bureau of Prisons, I also serve as the Chief Executive Officer of the Federal Prison Industries program. I have served in the Bureau for 19 years in a variety of capacities, including Regional Director and Warden at two institutions. Although I am not involved in the day-to-day operations of the FPI program, I have firsthand knowledge of the impact this program has in reducing crime and in making prisons safer to manage and less expensive to operate.

Today, there are more than 176,000 Federal inmates. The Federal inmate population has increased more than 600 percent since 1980, and is projected to increase another 22 percent, to more than 215,000 inmates, in the next 6 years.

The Bureau of Prisons is sensitive to the concerns of Members of Congress, as well as business and labor representatives, that any negative impact of the FPI program on the private sector should be minimized. Consistent with the administration's position, any reform should simultaneously provide Federal agencies greater procurement opportunities, increase access by private sector compa-

[1] The prepared statement of Mr. Lappin appears in the Appendix on page 47.

nies to government purchases, and ensure that the attorney general maintains adequate inmate work opportunities in Federal prisons.

The Bureau has no control over the number of inmates who come to prison, their length of stay, or the backgrounds they bring with them. We do, however, have some influence over what inmates learn in custody and the impact they will have on public safety upon their release.

The Federal Prison Industries program plays an integral role in reducing recidivism. Inmates who work in the program are 24 percent less likely to commit crimes and 14 percent more likely to be employed for as long as 12 years after release, as compared to a similar group of inmates who did not have the FPI program experience.

The impact of the FPI program is particularly significant because FPI focuses on employing our more serious offenders. In fact, 76 percent of FPI inmate workers have been convicted of drug trafficking, weapons, and violent offenses. These inmates are at higher risk of recidivism because they typically have extensive and violent criminal histories, poor educational accomplishments, and limited work experiences.

FPI is a crime-reducing program that is financially self-sustaining and receives no direct appropriated funds for its operations. Although inmates who work in the FPI program produce products and perform services, the real output of the FPI program is inmates who are more likely to return to society as law-abiding taxpayers because of the improved job skills training and work experience.

The FPI program earnestly strives to support the private sector. Last year, the FPI program spent nearly half-a-billion dollars on purchasing raw materials, supplies, services, and equipment from the private sector vendors. This amount represents 75 percent of the entire revenue earned by the Federal Prison Industries program, and more than 53 percent of this money went to small businesses.

Efforts to reform the FPI program in a balanced manner are already underway. We have already reduced the FPI program's reliance on mandatory source in our traditional product lines. The Congress has already enacted FPI legislation, and the FPI Board of Directors recently adopted several resolutions, all intended to ensure the FPI program does not place an undue burden on private industry.

The collective effect of these and other factors has been a decline in the FPI program's sales and earnings, particularly in office furniture. As a result, the FPI program has had to close or downsize 13 factories and reduce inmate program participation by approximately 2,000 inmates from a year ago.

If FPI is not able to maintain its viability as a correctional program or is not able to maintain adequate levels of inmate enrollment, there will be a negative ripple effect. Recidivism will likely increase. Small businesses that currently depend on the FPI program for their business success will be negatively affected. Monies to victims of crime will decrease. Inmate idleness will increase. And

we will need to develop alternative programs to keep inmates productively occupied.

Like the Federal Prison Industries program, our education and vocational training programs have a positive impact on recidivism and an inmate's ability to find and maintain employment upon release. However, they are not a substitute for the extended real work experiences provided by the FPI program. Moreover, these programs are designed to run for a limited time—vocational training is typically 18 to 24 months in duration, and the average sentence length for inmates currently in the Bureau of Prisons is over 9 years.

Chairman Fitzgerald, I recognize that this is a complex public policy issue with no easy answers and I look forward to working with everyone involved to achieve a practical, balanced, cost-effective reform of the Federal Prison Industries program.

This concludes my formal remarks and I look forward to any questions from the Subcommittee.

Senator FITZGERALD. Mr. Lappin, thank you very much. Mr. Williams.

TESTIMONY OF JACK R. WILLIAMS, JR.,[1] ASSISTANT REGIONAL ADMINISTRATOR, FEDERAL SUPPLY SERVICE, REGION 3, U.S. GENERAL SERVICES ADMINISTRATION

Mr. WILLIAMS. Chairman Fitzgerald, Members of the Subcommittee, I appreciate the opportunity to appear before you today on behalf of the U.S. General Services Administration, GSA, to discuss your ideas to establish a governmentwide policy requiring competition in certain procurements from Federal Prison Industries.

GSA supports the Subcommittee's interest in requiring competition to the maximum extent practicable whenever taxpayer dollars are being spent to ensure positive results in government acquisition. Two fundamental principles need to be satisfied in any legislative or administrative reforms. Agencies should have the flexibility through competition to purchase quality goods and services at fair and reasonable prices with the expectation of timely performance. At the same time, FPI is an important national program and the attorney general must be able to maintain adequate work opportunities at Federal prisons to counter the potentially dangerous effects of inmate idleness and prepare prisoners for reintegration into society.

Finding a results-oriented approach to meeting FPI's national objectives, providing work opportunities for inmates, while obtaining additional competition and transparency in the government procurement process will result in the taxpayer getting better value for their tax dollars and giving Federal agency customers a greater range of choices.

As this Subcommittee knows, the President has called upon the entire Federal Government to improve performance by focusing on results. Among other things, we have been charged with making our agencies citizen-centered, market-based, and results driven. Ac-

[1] The prepared statement of Mr. Williams appears in the Appendix on page 62.

countability requires that we spend the taxpayers' dollars wisely and provide greater insight into how their money is being spent.

S. 346 and other bills are being considered by the Senate with regard to the reform of FPI. The administration has taken a neutral position on all bills. Therefore, I will not be commenting on the specifics of S. 346.

A number of previous actions by Congress and this administration are promoting competition and helping create a level playing field with the private sector. GSA, NASA, and the Department of Defense revised the Federal Acquisition Regulations four times over the past year to implement results-oriented reforms.

Namely, in May 2003, agencies began evaluating FPI's contract performance, just as they would the performance of any other private sector firm. This is a results-driven solution focused on actual contract performance. While this did not change FPI's mandatory preference status, it was an important first step in helping FPI better monitor and improve its performance. Results-oriented feedback has proven to be a critical tool for the private sector over the last two decades in terms of improving both products and services and its bottom line, and it is now time to be employed by FPI as they move forward towards being competitive in the Federal marketplace.

Second, the threshold for mandatory use of FPI was raised from $25 to $2,500 in May 2003. This change by the FPI Board of Directors allows agencies to go directly to the private sector or FPI for any purchase under $2,500.

Third, Section 811 of the National Defense Authorization Act for Fiscal Year 2002 was implemented by DOD, requiring that before purchasing a product from FPI, DOD must determine whether the FPI product is comparable in price, quality, and timeliness of delivery to products available from the private sector.

Finally, this same requirement was extended to DOD and non-Defense Department activities alike in fiscal year 2004 based on Section 637(f) of the Consolidated Appropriations Act of 2004. This statutory provision prohibits all Federal agencies from using their appropriated funds to purchase from FPI unless the agency making the purchase first determines that the FPI's service or product provides the best value to the buying agency pursuant to FAR procedures. If FPI's product is found to be comparable with private sector offerings that best meet the agency's needs in terms of price, quality, and timeliness of delivery, agencies should buy from FPI. If not, agencies are free to use competitive procedures, including FPI, in the competition.

GSA supports reform of FPI and looks forward to working with this Subcommittee in making sure our procurement system is based on competitive procedures that are focused on achieving results.

This concludes my prepared remarks. I am happy to answer any questions you may have.

Senator FITZGERALD. Thank you very much. Mr. Palatiello.

TESTIMONY OF JOHN M. PALATIELLO,[1] PRESIDENT, MANAGEMENT ASSOCIATION FOR PRIVATE PHOTOGRAMMETRIC SURVEYORS, ON BEHALF OF THE U.S. CHAMBER OF COMMERCE

Mr. PALATIELLO. Thank you, Mr. Chairman. I want to commend you and the Subcommittee for holding this hearing and we would like to thank Senator Levin and Senator Thomas for their leadership on the very important issue of injecting more competition into Federal procurement and reforming the practices of FPI.

The Chamber is the world's largest business federation, representing more than three million businesses and organizations. I might add that more than 95 percent of the Chamber's members are small businesses.

The Senate Governmental Affairs Committee has jurisdiction over the entire Federal procurement process, and I would like to put the legislation before us today in the context of the Committee's longstanding interest in competition in Federal procurement.

Reform of FPI will ensure fair and full competition to ensure that the American taxpayer gets the best value for the goods and services that its government buys while removing barriers that prevent businesses, particularly small business, from competing for government contracts. FPI reform is also in line with this Committee's responsibility to assure effective and efficient Federal financial management.

Over the years, this Committee has had a longstanding history of advancing pro-competition, pro-reform procurement legislation, such as the Competition in Contracting Act, the Federal Acquisition Reform Act, the Federal Acquisition Streamlining Act, and the Federal Activities Inventory Reform Act. All of these had one fundamental principle, and that was that competition is good and competition brings better value to the taxpayer.

We believe S. 346 is the next logical step in that series of reforms that this Committee has promoted. S. 346 would allow the private sector to compete on a fair and level playing field with FPI for Federal contracts based on price, quality, and timeliness of delivery. The bill also prohibits inmate access to personal or financial information, critical infrastructure information, or classified information, as well as prohibiting FPI from forcing businesses to use FPI as a mandatory subcontractor. In many ways, S. 346 simply codifies on a governmentwide basis the reforms that have been mentioned earlier that have been enacted in the defense authorization and omnibus appropriations bills.

The system that we have today, that we have had since 1934, I describe as putting FPI in the place of being judge, jury, and prosecutor. It is FPI that gets to set the price they charge for their products. It is FPI that determines whether those products or services meet the agency's needs. It is FPI that decides whether their delivery schedule meets the agency's needs.

FPI has also expanded its products and services without any regard to the impact on the private sector, so they have basic carte blanche authority to enter wherever they wish regardless of the consequence on small business and our employees. Even more

[1] The prepared statement of Mr. Palatiello appears in the Appendix on page 64.

alarming is their effort to, and their desire to, sell inmate-produced services in the commercial market.

Mr. Chairman, you asked a very good question at the opening of this hearing and I would like to take some of my remaining time to mention—what was mentioned was 50 cents, or it is actually 23 cents an hour to $1.15 an hour. I would like to mention some of the other advantages that Federal Prison Industries enjoys over the private sector.

It does not have to pay Social Security, the employer's share. It does not have to pay unemployment compensation or workers' compensation insurance. It is exempt from all Federal, State, and local income taxes, gross receipts taxes, excise taxes, and sales taxes. It is not subject to Federal Trade Commission oversight, Securities and Exchange Commission oversight, Department of Justice antitrust oversight.

It does not pay fair market value, or in some cases pay at all for utilities. It has a special statutory allowance of a line of credit from the U.S. Treasury for up to, I believe it is $20 million at zero percent interest. I don't know of very many private small businesses that have that right.

It is exempt from all standards, inspections, and fines of various State or local or Federal enforcement agencies, such as OSHA. It does not have to comply with local zoning. It enjoys sovereign immunity, so it has to carry no insurance. It carries no health insurance costs, and family and medical leave. And these are government contracts, so it is not just minimum wage; the private sector has to pay the prevailing wage rate.

All of those are advantages that FPI has over the private sector, which we think would be particularly onerous if they entered the commercial market.

Thank you, Mr. Chairman.

Senator FITZGERALD. Thank you very much, Mr. Palatiello.

Senator Pryor has joined us and I would like to welcome him, if he wishes, to make some opening remarks at this time before we proceed to the second half of this second panel.

Senator PRYOR. No, thank you, Mr. Chairman. I appreciate your leadership on this issue.

Senator FITZGERALD. Well, thank you.

Mr. Weiss, would you like to go ahead at this time?

TESTIMONY OF KURT WEISS,[1] SENIOR VICE PRESIDENT AND GENERAL MANAGER, U.S. BUSINESS INTERIORS, ON BEHALF OF THE OFFICE FURNITURE DEALERS ALLIANCE

Mr. WEISS. Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to testify before your Subcommittee today to discuss S. 346, a bill which amends the Office of Federal Procurement Policy Act to establish a governmentwide policy requiring competition in certain procurements from Federal Prison Industries.

My name is Kurt Weiss and I am the Senior Vice President and General Manager of U.S. Business Interiors, a small business

[1] The prepared statement of Mr. Weiss, with attachments, appears in the Appendix on page 71.

which employs 74 people. USBI was incorporated in 1990 by our owner, William Rice, and has always had an established culture of a family-owned business.

I want to share with you my story as it relates to Federal Prison Industries. FPI, as you may know, has had up until recently a mandatory source advantage in the office furniture industry. This mandatory source status has had a major impact on small business, both locally and nationally. USBI has personally felt and seen the effects of FPI's mandatory source status.

U.S. Business Interiors was involved in an RFQ for the Federal Aviation Administration building here in Washington, DC. The project was a $5 million solicitation, involved every major manufacturer in the furniture industry, including Steelcase, Herman Miller, Knoll, Hayworth, and Techniat. FPI was not required to bid alongside the other commercial industry companies.

USBI presented our response to the FAA meeting all requirements of all areas of the bid, forming three teaming arrangements to make sure we could be a turnkey provider to the FAA. In responding to the RFQ, every company had to present a corporate introduction, project team with resumes and experience, references, environmental impact, product literature, teaming letters, if needed, warranty information, work station typicals, work station specification, work station options, finished samples, pricing, and an acknowledgement of all RFQ terms, including acceptance of a liquidated damages clause.

As you can imagine, this is a costly and time consuming effort and draws numerous resources from our day-to-day operations. Over 29 options were specified, including 19 work station private office typicals. In addition, 16 optional specifications were required for specialty areas. USBI spent over 120 man hours in bid preparation, including design, administration, value engineering, setting up vendor partners, and researching the competition. This resource draw cost USBI about $4,800. This is a lot of money for a small business like USBI.

After evaluation of the competitors' bids by FAA and GSA, USBI was assessed the best value bid. Within days of notifying FPI of the intent to award USBI the FAA project, it was communicated to USBI that the FPI waiver had not been granted. USBI was notified they must sign a letter to release of our best value bid to FPI. On May 6, 2003, FPI sent a response to GSA and FAA notifying that a waiver would not be granted. A copy of the FPI's corresponding bid was sent to GSA and FAA. Upon review of this bid, it was determined that FPI copied USBI's best value bid and demanded FAA award the FOB 10(b) project to them, and I have copies of both ours and UNICOR's response here.

The time, money, resources, confidential pricing, and discounting of this project was not only copied, but was given to commercial industry competitors of USBI. As a small businessman, I do not have a problem with the open and fair competition. What I have a problem with is the fact that FPI is not competing with anyone, but instead guaranteed by statute all the government business it wants. What FPI has been allowed to do in the FAA case is unconscionable. If USBI did this in the private market, we would have

committed antitrust violations. When FPI does this in government, they consider it OK.

The mission of FPI when it was created in 1934 was to provide inmates with real skills that they could use once released back into society. This is nice in principle, but in reality, FPI is not living up to its mission. The FAA project is a clear example of how FPI has lost its way.

Since I am almost out of time, I would like to thank you for the opportunity to speak before you and answer any questions you might have.

Senator FITZGERALD. Thank you. Your full statement will be entered into the record. Mr. Linder.

TESTIMONY OF ANDREW S. LINDER,[1] PRESIDENT, POWER CONNECTOR, INC., ON BEHALF OF THE CORRECTIONAL VENDORS ASSOCIATION

Mr. LINDER. Mr. Chairman, Members of the Subcommittee, I am Andy Linder. I am President and owner of Power Connector, a small electronics firm based on Long Island, New York.

Power Connector went into business on April 1, 1987, 17 years ago last week. When we first put the key in the door, there were just two of us, just two people and a lot of hope. Now we have 76 employees and we have built what I think is a solid reputation, producing high-quality, reliable electronic connectors and cable hardware for the U.S. military. Our products are relied upon every day by American soldiers all over the globe, including our men and women in Afghanistan and Iraq. We even made some of the parts that the FPI built for the transmitter that saved the life of Air Force Captain Scott O'Grady after his plane was shot down in Bosnia in the summer of 1995.

The story of Power Connector is very much the story of Federal Prison Industries working with small business. In that respect, it is a story that could be told by any one of thousands of other business owners, small ones in other States.

Small businesses have contracts with FPI worth close to half-a-billion dollars in gross revenues per year. At Power Connector, we have capitalized and hired employees on the strength of those contracts. Our employees and their families depend upon those contracts to survive. In fact, for every dollar purchased by Federal Prison Industries, 74 cents goes directly back into small businesses in the private sector just like ours.

Senators, Power Connector would never be in business today without FPI and its small business initiatives. As a matter of fact, we may not be here tomorrow if you pass S. 346. The reason is that FPI recognizes the gains to be made when dealing with small businesses like ours and they make doing it a priority. They broke down their large comprehensive contracts into smaller segments and they have developed a unique partnership with small businesses.

Unlike other Federal agencies, Federal Prison Industries gave us the one thing that we needed the most, and that was a chance to be competitive in the defense industry. They were hard task-

[1] The prepared statement of Mr. Linder appears in the Appendix on page 87.

masters when it came to quality, but we delivered on time and on budget. Our 76 employees aren't the only ones involved. In addition to our own success, the subcontracts that we have outsourced over the past 17 years to over 45 other small businesses have created jobs for over 140 full-time employees outside of our own doors.

But Federal Prison Industries is not just about creating private sector jobs. One day in June 2001, I received a letter from a Federal inmate from Fairton, New Jersey. He told me that he was about to be released about a month later in July, after having spent the last 18 years of his life in State and Federal custody. He attached his resume and he asked me for a job.

Two days after he was released from that prison, I had him come to my factory, where he was interviewed by myself and three of my managers on a Friday. Well, he made the grade and he started working for us the following Monday, and he has been one of my most relied-upon employees and productive employees ever since that day. He has never missed a day. He is never late. And he has integrated himself seamlessly into our organization and into our lives. He has performed beyond all expectations.

Today, this man who spent 18 years behind bars supervises three other employees in one of the most critical areas of our business. He will tell you what turned his life around, the day he found religion and the day he and Federal Prison Industries found each other. Last year, I was the best man at his wedding, and I was even able to help him move this past Saturday into his own home.

When I look at him, I see why I believe in FPI. I am proud to call him my friend and I am even prouder to introduce him to the Senate. Gentlemen, please welcome my product manager, Demitrio Ricciardone.

[Applause.]

Mr. Chairman, Members of the Subcommittee, neither I nor Dino would be here today if it wasn't for Federal Prison Industries. That is why I so strongly oppose S. 346. It would hurt small business. It would cost jobs. It will hurt inmates just like Dino here. And it will jeopardize the safety and the staff of our penal institutions. Thank you for your time and your consideration.

Senator FITZGERALD. Thank you very much. Mr. Glover.

TESTIMONY OF PHILIP W. GLOVER,[1] PRESIDENT, COUNCIL OF PRISON LOCALS, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL–CIO

Mr. GLOVER. Chairman Fitzgerald and Members of the Subcommittee, my name is Phil Glover and I am the elected President of the Council of Prison Locals, American Federation of Government Employees. We represent 26,000 Federal employees working in the Nation's prison system. We have 100 local unions that represent correctional officers, caseworkers, food service workers, and Federal Prison Industries employees, and also various others.

I would like to thank you for holding this oversight hearing today on S. 346, a bill that would establish a governmentwide policy re-

[1] The prepared statement of Mr. Glover, with attachments, appears in the Appendix on page 94.

quiring competition in Federal agency procurement from FPI. It is an important topic for the safety and security of Federal prisons.

The proposed legislation would have real consequences for the men and women who work in Federal prisons across the country. In my written testimony, I have outlined some of the history of FPI when it was created. I also talk about the actual dollar amounts that FPI sells in the Federal market in furniture.

I also want to add something that has come up several times. We are a unionized law enforcement workforce. Our members work in FPI. They do not work in non-OSHA standard factories. We would not allow it as a union. We wouldn't allow them to work in there under any conditions that weren't acceptable to the private sector.

FPI receives about a half of one percent of the Federal procurement dollar. This is small compared to the Federal market and the larger private market. Furniture sales have dropped dramatically since the passage of Sections 811 and 819 in the Defense Authorization Act. We believe we know what will happen if this bill should pass in its present form. We have seen 2,000 inmates go idle and 100 staff positions eliminated so far. This should concern all Members of the Subcommittee.

If you change the contracting rules permanently, then corrections policy must be changed, as well. It is a broader issue than just eliminating mandatory source and changing what products and services we can compete in.

I would also like to point out three memorandums that I placed in our statement. One of those memorandums is from a staff member in Memphis, Tennessee. It describes a day of a riot in 1995 when the Senate and the House didn't change the sentencing standards for cocaine and powder cocaine, or crack and powder cocaine. I just want to point out one section:

"Later that afternoon, the same radical group became violent and began destroying government property. They also attacked us in front of one of the housing units. Moments after attacking us, they went to the rear of UNICOR and began breaking open the fire escape door. The inmates on the inside of UNICOR helped fight them off and yelled they did not want to participate or destroy UNICOR. They turned their attention to other areas of the institution and continued their rampage."

The other memos continue on the same theme, that inmates participating in FPI do not participate generally in these types of activities. I can provide more statements, and I would certainly do that for the Subcommittee.

We understand the controversy surrounding FPI, but to eliminate it and replace it with nothing is unacceptable. We will need massive growth in correctional staffing. We are already down 11 percent nationwide in correctional staffing, and more funding for additional programs that will have to come from appropriated dollars to the Federal prison system.

The union requested information from management on FPI contracts with the private sector. I have attached the full list for the record, but want to highlight a few.

In Pennsylvania, we purchased $77.9 million in goods and services in the private sector. In New Jersey, $19.5 million in goods and services. In Michigan, we purchased $56.1 million to the pri-

vate sector in Michigan. Mr. Chairman, in your State, we provide $33.2 million to the private sector, in Illinois. What happens to these people? Where do these people's work go? Who replaces them? This means that UPS, Roadway, some textile companies in North Carolina, and many other companies will probably close their doors.

Inmate wages were brought up. FPI has two workforces. We have security needs. It is a much different program than running a factory in the private sector. We have to send inmates through metal detectors in and out of each of those factories on a daily basis. I doubt any company in here has to have staff standing there watching that inmates don't steal stuff from the factory so they can stab a staff member back up in the housing unit.

We also have our staff that are paid out of UNICOR non-appropriated funds. They are not appropriated fund employees. All their benefit packages, all of their insurance, all of that comes out of FPI sales. So it is not appropriated dollars that are paying for staff in the Federal Prison Industries program. It is non-appropriated. Therefore, as the program decreases, those staff have to be let go.

I want to thank you for allowing me to testify and I would answer any questions you may have.

Senator FITZGERALD. Thank you all very much.

I want to start with Mr. Lappin. At the outset, I asked, why wouldn't FPI win any bid if private businesses could bid for government procurement contracts? Shouldn't FPI be able to win the bids, because wouldn't you have lower costs? And if you don't have lower costs, why is it that you don't have lower costs?

Mr. LAPPIN. Thank you, sir. I would be pleased to respond to your question. A couple of things. One, when you look at those rates, one would assume, how could anyone ever compete with that? But I think Mr. Glover mentioned a few issues.

First of all, let us talk about the inmates that work in Federal Prison Industries. They come to us with limited literacy skills, few vocational skills, and the majority of them have never worked in a normal industry or operation. Few of them have worked in a normal situation, so the majority of them lack work skills. There is enormous turnover. So there are limitations based on the inmates themselves that come to us, and certainly it is our job to improve on those skills.

But I think what is more complicating is the fact that we put the majority of these factories in our medium- and high-security facilities, which create enormous inefficiencies, which just by the nature of those institutions complicate the ability to run a factory in a location like this. These inmates all have histories of violence, all have long, sometimes lengthy sentences, so all of those issues complicate management of tools, equipment, oversight, and control. So the normal work day is not a normal work day as you would compare it to a privately-run company. All of these things result in huge inefficiencies.

I think you see this more when you walk in and see this operating in person. I would invite the Members of the Subcommittee or their staff to visit a couple of institutions so we could show you the challenges we face in running factories in institutions of this nature, not only because of the limitations of the inmates, but be-

cause of limitations just based on the type of security and oversight and control we must have over the equipment, the operations, and the programs.

Senator FITZGERALD. So your payroll for the prison workers may be very low and you don't have the Social Security, Medicare, unemployment compensation and workers' compensation costs for the prison workers, but you would have to have another whole set of employees from Mr. Glover's union that would actually watch over the workers while they are doing this. Do you also include a cost in your overhead for the factory itself?

Mr. LAPPIN. Absolutely. What I would like to do for the record—I don't have it here in writing——

Senator FITZGERALD. Are those factories built with appropriated amounts or are they built out of the proceeds of the——

Mr. LAPPIN. The shell of the factory is built with appropriated funds. The build out of the factory and all equipment, all utilities, all other needs of the program, the industry, are paid for by FPI.

The other thing I would like to mention is let me provide in writing for the Subcommittee a list of those things that are paid for by appropriated funds and a list of those things that are paid for by UNICOR so that we have the facts.

Senator FITZGERALD. That would be helpful. Do you also have financial statements?

Mr. LAPPIN. Absolutely.

Senator FITZGERALD. This is a corporation. Do you have audited financial statements?

Mr. LAPPIN. Yes, sir.

Senator FITZGERALD. Balance sheet, income statement, and so forth?

Mr. LAPPIN. We have to file—we comply with all commercial and government accounting standards. We are audited independently every year. This audit is conducted or overseen by the Inspector General's office. This past year, this audit was conducted by PriceWaterhouse Coopers. It was an unqualified decision this past year. We post that on our website. We can provide you a copy in person.[1]

Senator FITZGERALD. Mr. Williams, you do a lot of purchasing for the Federal Government at the GSA. You personally—it is not an administration position, but you personally sound like you favor opening up contracts to bid and doing away with the sole source requirement for FPI, is that correct?

Mr. WILLIAMS. That is correct, Mr. Chairman.

Senator FITZGERALD. Do you think it would save the taxpayers money to do that?

Mr. WILLIAMS. Absolutely, and the reason I believe that is, GSA used to be a mandatory source within the Federal Government. When we were a mandatory source, we didn't listen to our customers in the Federal Government. We didn't work very cooperatively with our partners in the private sector. And we pretty much dictated what you would get, when you would get it, and what the product would be.

[1] The information provided by Mr. Lappin appears in the Appendix on page 250.

Senator FITZGERALD. So can Federal agencies now go out and just buy furniture at a store without going through you, or buy——

Mr. WILLIAMS. Federal agencies do not have to use GSA sources of supply. We have to earn the business and we have to earn the business with good prices and good service.

Senator FITZGERALD. And that forced you to get better?

Mr. WILLIAMS. We have seen much growth in our financial performance since we were mandatory. Now being non-mandatory, we have grown tremendously in the amount of sales to Federal agencies.

Senator FITZGERALD. Now, what about the issue with services, Mr. Lappin? The FPI is now providing services. I understand that prison workers are manning call centers——

Mr. LAPPIN. That is correct.

Senator FITZGERALD [continuing]. That are being used by private companies?

Mr. LAPPIN. Yes. Years ago, in an effort to reduce our reliance on mandatory source, as indicated, we certainly are looking for ways to reduce the products that fall under mandatory source——

Senator FITZGERALD. In those cases, you are bidding for that work, I would imagine, because the private companies that need a call center don't have to follow a statute that requires that they use you. I am sure they look around and see where they could get a good deal, and you must have won those contracts.

Mr. LAPPIN. Actually, we are only pursuing work that is currently being done offshore or work that would be going offshore if we weren't competing. So we are not pursuing those types of work ventures which would——

Senator FITZGERALD. So the billionaire in India who owns the call center over in India is making so much money, he might hire a Washington lobbyist to come over here and oppose you in the Senate because you are competing with him. [Laughter.]

So you are only competing against foreign call centers?

Mr. LAPPIN. In many of the services, we are only pursuing—a few months ago, the Federal Prison Industries Board asked that we look at opportunities outside of those products that rely on mandatory source, and that is pretty much where our new service area is going, and that we only look at those areas of work that is being conducted, and performed, offshore. So companies that come to us must certify that work that we are competing for, if not for us, would be performed offshore.

Senator FITZGERALD. OK. Senator Levin, would you like to ask your questions?

Senator LEVIN. Just following up on that, that is something which I have been pressing for in the area of products for a long time, as to why the FPI doesn't look at products that we import and where there are, for instance, only imported products which are purchased by the government and then get into that business. It is the analogy to what you are doing in services. Why don't you go through that list?

Mr. LAPPIN. I certainly think that is an area that we could consider.

Senator LEVIN. Yes, but I raised that 4 years ago, and 3 years ago, and 2 years ago, and I was given the same answer. That is an area we could consider.

Mr. LAPPIN. I think if you look at most of our product areas, you are seeing a decline, especially in furniture over the last few years, because of the recent legislation that has been passed, because of the recent resolutions passed by the Board. We are relying less and less on our primary product areas of textile, furniture, and electronics.

I know if you look at this last year, you are going to see a bit of a surge, especially in textile and electronics, but that is solely because of the surge of the war and our commitment to support the troops. But certainly in furniture, you are seeing much less business in that regard and you are seeing us grow in those other areas, and we are looking at some refurbishment of equipment and supplies from overseas as well as the Department.

It takes some time for us to transition, and again, as I have indicated before, we are in favor of reform of FPI. We are including the eliminating of mandatory source. We are committed to relying less on our traditional products lines of——

Senator LEVIN. Excuse me, what were those words? Including the elimination of mandatory source? Were those the words I heard?

Mr. LAPPIN. That is correct.

Senator LEVIN. That is what this bill is all about.

Mr. LAPPIN. That is correct, sir.

Senator LEVIN. We are trying to eliminate that, too, so we are on the same side now.

Mr. LAPPIN. As I said, sir, we are in favor of reform. We are in favor of relying less on mandatory source, if not elimination, and less reliance on our primary product areas of furniture, textiles, and electronics, as long as we can pursue products and services in other areas that allow us to keep inmates productively occupied.

Senator LEVIN. I am glad to hear that you favor the elimination of mandatory source, because that is at the heart of this bill. The other issue is the services issue, and there, you are saying that you are doing what you should have done a long time ago with products, which is to look for offshore suppliers, to compete with them instead of eliminating competition from the American private sector. So I would think that in a way, you are at least symbolically or theoretically supportive of the direction of our bill.

But I want to go back to my question about imports on products. You say it is a good idea. Has FPI in the last few years done a comprehensive search of products that are purchased by the Federal Government that are only produced offshore? Do you know if that search has been made?

Mr. LAPPIN. I am not sure, but again, I will check with the staff in FPI and provide for the written record a response to that question.[1]

Senator LEVIN. We have been pressing that issue year after year and have never gotten a satisfactory answer to it.

Mr. LAPPIN. I can give you some examples of some of the service areas, to include data entry for information from used car ads, re-

[1] The information provided by Mr. Lappin appears in the Appendix on page 250.

pair of automotive starters and generators, attaching advertising inserts in magazines, sorting and reboxing shoes. Those types of things have all been repatriated.

Senator LEVIN. Mr. Williams, I think you have already commented on this, but would you expand a bit on the history of GSA? You had a mandatory source requirement until 1996.

Mr. WILLIAMS. Actually, it was 1986——

Senator LEVIN. Eighty-six.

Mr. WILLIAMS [continuing]. When we were first given permission to use industrial funding to fund GSA operations. With that, Congress instructed us that we would no longer have mandatory source and that we would be optional for use by Defense Department and other Federal agencies.

Senator LEVIN. So with some products until 1996?

Mr. WILLIAMS. In 1996, we were fully non-mandatory——

Senator LEVIN. Non-mandatory.

Mr. WILLIAMS [continuing]. And we have seen steady growth in all of our program areas. I want to just insert here that the partners that we worked with in the business community, over 40 percent of them are small businesses and we worked carefully with industry to be a good partner and at the same time getting the best value for the government purchasing dollars.

Senator LEVIN. Would you expect that GSA's experience in that regard would be followed by FPI, that they would have the same experience?

Mr. WILLIAMS. I believe if they operated in a business-like way, in cooperation and in spirit of cooperation with their customers, that they could see the same type of growth, because we had to change our practices. We had to change our products. We did that in response to agency and customer needs. I believe that they could enjoy the same type of growth.

Senator LEVIN. Mr. Lappin, back to you just for a minute. What is the management structure of FPI? I should know the answer to this, but I don't. Is it a government corporation? Are all the employees in FPI in the corporate level government employees?

Mr. LAPPIN. Yes, they are.

Senator LEVIN. So you are run like any other owned corporation?

Mr. LAPPIN. We receive no appropriated funds. They are completely self-sustaining——

Senator LEVIN. And are the salaries set by you or are they set by statute?

Mr. LAPPIN. They are set by OPM regulations.

Senator LEVIN. For the management?

Mr. LAPPIN. That is correct, for management. It goes through the same process that other government employees would be. Employees that work in our Federal prisons are law enforcement employees. They have primary responsibility for the care and custody of inmates along with their responsibilities in Federal Prison Industries. So they, too, are responsible for care and custody of inmates.

Senator LEVIN. So your budget is a matter of public record?

Mr. LAPPIN. Absolutely.

Senator LEVIN. Is it part of the budget of the United States—it is not part of the budget documents.

Mr. LAPPIN. No, it isn't. We do a projection yearly. For example, in 2003, we projected about a $667 million budget. Four-hundred-and-ninety-seven million, or 75 percent, was to buy material supplies from private sector vendors. About 19 percent, $130 million, went to staff salaries and benefits. About 6 percent, $40 million, was inmate pay. And so we can provide that to you in writing. We publish a statement every year.[1]

Senator LEVIN. OK, thank you. Thank you, Mr. Chairman.

Senator FITZGERALD. Senator Pryor, would you have any questions at this point?

Senator PRYOR. I do, but Senator Thomas, you go first.

Senator FITZGERALD. Senator Thomas.

Senator THOMAS. Thank you, Mr. Chairman. This has been a good panel and I appreciate this.

You mentioned, Mr. Lappin, in some of your criteria, I believe you said it will not place a burden on private business. How do you determine that?

Mr. LAPPIN. We do a survey prior to going into a new product area and service area. We advertise. We ask for comments from agencies and governments who may be performing that product, or producing that product or service, so that we can balance that. We encourage folks who feel as though they have been negatively impacted to contact us so that we can weigh the consequences of some of our decisions and try to do whatever we can to reduce the negative impact——

Senator THOMAS. I know, but how do you determine? You have the U.S. Chamber that thinks you are being difficult, and you say, well, no, we are not hurting because we check it out.

Mr. LAPPIN. No, for the record, say that I recognize that we have some negative impact on businesses. There is no doubt about that. We cannot completely say we don't have some impact.

Senator THOMAS. You also mentioned, if you didn't do this, you would have to develop an alternative program. What is wrong with having an alternative program? You can change once in a while.

Mr. LAPPIN. There are some alternative programs that may be applicable, but I know that in many of them that have been proposed, we cannot recreate a real-life work environment like we have in the industry programs. We value certainly our education programs and VT programs, as I have mentioned, and we leverage or nudge inmates into those programs because many of them come to us lacking literacy skills and vocational skills——

Senator THOMAS. What about the other 88 percent——

Mr. LAPPIN [continuing]. But they are short term.

Senator THOMAS [continuing]. That you don't deal with? You have 88 percent of your prisoners that aren't even involved.

Mr. LAPPIN. Well, we have work assignments far beyond Federal Prison Industries.

Senator THOMAS. I understand. So why does this become such a priority?

Mr. LAPPIN. Well, it is by far a much more real-life work experience and one that an inmate takes enormous commitment into the product, and certainly we see inmates who work in Federal Prison

[1] The information provided by Mr. Lappin appears in the Appendix on page 250.

Industries being less disruptive in our prisons and less likely to come back to prison because of the work skills and abilities they learned as a result of that experience.

Senator THOMAS. Mr. Williams, I don't quite understand. You said agencies don't have a choice of what they buy. This is a mandatory program, is it not?

Mr. WILLIAMS. GSA or Federal Prison Industries?

Senator THOMAS. No, the Federal Government agencies.

Mr. WILLIAMS. Federal Prison Industries products for furniture have to be purchased by Federal agencies. There have been changes in two appropriations bills that have modified that temporarily——

Senator THOMAS. Right.

Mr. WILLIAMS [continuing]. But they are required to get a waiver from Federal Prison Industries, and if they don't get the waiver, then they have to proceed with purchase of products from UNICOR. In some cases, they are successful at getting a wavier. In others, they are not. Many times, the customer agency will work with GSA to get a waiver and we will work and communicate with the ombudsman at UNICOR to see if we can get that waiver for that Federal agency.

Senator THOMAS. Let me move to Mr. Weiss. You talked some about waivers. Did that work well for you?

Mr. WEISS. Not in the FAA instance. We have had one opportunity where a waiver has been successful, but they are very—usually, you go through three or four appeals of the waiver process before you can go through. It is a lot of intimidation on the contracting officer from the FPI level. You really have to have somebody on the government side or the agency side that is willing to invest time and effort into seeing that process through, because it could be a 3-month process to get a waiver.

Senator THOMAS. Mr. Linder, you talked about getting some of your outsourcing at the Federal agency. Can't you outsource in the private sector, as well?

Mr. LINDER. Yes, that is a good question. I just want to say that I think free competition and open competition is the American way, free enterprise, and that is how I got into business. I just want to also add, I would never have even started my business if Federal Prison Industries didn't exist or even have had an opportunity to bid into that system, because my belief and experience has been that to try to sell to large businesses is a very difficult process. I think that what we are looking at here is if this mandatory preference is removed, what will be happening is you will be providing opportunity to big business. I think it takes large business to manufacture the type of products that are produced by FPI and——

Senator THOMAS. There are thousands, hundreds of thousands of small businesses that don't operate as you do and are still successful.

Mr. LINDER. That may be so, but I am talking about my business. You asked me about——

Senator THOMAS. I understand.

Mr. LINDER [continuing]. My business.

Senator THOMAS. Why do you go there, because you can do it less expensively?

Mr. LINDER. Why do we go to——

Senator THOMAS. Prison?

Mr. LINDER. Let me explain it to you. Federal Prison Industries makes it easy for their subcontractors. They make it like paint-by-the-numbers. You don't have to be a master painter to provide products to them. They take their products and break them down into small——

Senator THOMAS. What about the cost?

Mr. WEISS. The costs? I compete just like everyone else.

Senator THOMAS. Do you bid? Do you offer bids to others?

Mr. WEISS. Ever single contract order we have ever received, and I believe everybody who ever receives an order from FPI does so in the free competitive process.

Senator THOMAS. So you can imagine they are doing it a little less expensively, as the gentleman from the Chamber of Commerce pointed out, because of less costs, right?

Mr. WEISS. I believe that Federal Prison is plying their product because they have the mandatory preference. They don't have to compete against large business, who can—they don't have to follow strict guidelines on pricing and formulas. Federal Prison Industries is bound by——

Senator THOMAS. Do they pay the costs that the private sector does?

Mr. WEISS. I believe that they have plenty of expenses that the private sector won't ever have.

Senator THOMAS. Tell me what they are, would you?

Mr. WEISS. Yes. I believe that the overhead that——

Senator THOMAS. Retirement? Do they have retirement?

Mr. WEISS. Certainly.

Senator THOMAS. Do they have health care? Do they have all those things that the employer has to pay?

Mr. WEISS. Not to the inmates, but they certainly have heavy-duty supervision. I haven't heard anyone here state the numbers, but I believe that they face anywhere from 800 to 1,000 percent in direct supervisory costs for each inmate. So if they pay——

Senator THOMAS. How about those inmates that aren't in this? Are they supervised, as well?

Mr. WEISS. Outside of Federal prison? I believe they have——

Senator THOMAS. No, I am saying all Federal prisoners are supervised.

Mr. WEISS. Yes, they are.

Senator THOMAS. It is not quite right to say this group is supervised more heavily than others.

Mr. WEISS. I believe they probably are. I don't have the facts in front of me, but——

Senator THOMAS. I just think that you are a business person and there ought to be an opportunity for everyone to bid and get into the thing. It probably isn't fair if you are getting a break from the taxpayers to go to this particular place less expensively to other businesses. So these are the kind of things I think we have to look at in the broad sense, don't you?

Mr. WEISS. I agree, and if you want to do something good for big business, this will do just that. You will give plenty of work to

large businesses and I think the potential for that filtering down to small businesses like mine will be dramatically reduced.

Senator THOMAS. I don't agree with you at all, because small businesses are the major activities in this country and they continue to prosper.

Thank you, Mr. Chairman.

Senator FITZGERALD. Thank you, Senator Thomas.

I have been advised that FPI sometimes engages in so-called pass-throughs, or drive-by manufacturing, in which a private sector company essentially manufactures a product, FPI orders the product and then passes it through to the purchasing agency without any meaningful inmate labor involved. For any of the panelists, especially Mr. Lappin, does this happen, and if so, how frequently does it happen?

Mr. LAPPIN. Yes, sir, that does not happen. It was a practice in the past during times when we would receive an order, and it is called pass-through. I guess that is the term that has been tied to this process, in cases where we took business and for whatever reason—the factory was closed because of a disturbance, because of a problem, we couldn't meet the time line, we would go to the customer and get them to approve us purchasing the product and passing it to them.

We ended that prior to my coming into the Bureau of Prisons as the Director. We no longer——

Senator FITZGERALD. You came in what year?

Mr. LAPPIN. Last year, a year ago in April. A year ago this month. But that was solely——

Senator FITZGERALD. The end of the prior year——

Mr. LAPPIN [continuing]. For the convenience of the customer.

Senator FITZGERALD [continuing]. Coming in, would you know exactly when they ended that?

Mr. LAPPIN. I don't know exactly. It was one of the resolutions that was approved by the FPI Board of Directors, who sets these standards. I can provide to you in writing the date it was passed and when we stopped that process.

So now what we do is we just go back to the customer and say, because of the factory being closed as a result of a problem at the institution, we cannot meet the time line. Please go out and pursue that product through a private company.

Senator FITZGERALD. When they did those pass-throughs, was FPI taking a mark-up on the product? You go out and buy the product and then sell it to the agency. Would you mark it up?

Mr. LAPPIN. I don't believe so, but again, when we provide you a written response, we will indicate that for you.[1]

Senator FITZGERALD. You are not doing that any more?

Mr. LAPPIN. We are not. That is correct.

Senator FITZGERALD. And you are not going to go back to doing that?

Mr. LAPPIN. That is correct.

Senator FITZGERALD. OK. I understand, reading the statutes that go back to the 1930's covering the FPI, it appears that the work program can apply to non-Federal facilities, is that correct, that

[1] The information provided by Mr. Lappin appears in the Appendix on page 250.

there may be some non-Federal prisons? There is a reference in one of the statutes to up to 50 non-Federal penitentiaries. I was just wondering what that meant.

Mr. LAPPIN. Let me just help maybe in clarifying. A granted State and some private correctional facilities have industry programs. I am not sure exactly what authority they operate under. We only have Prison Industries programs in our own Federal facilities. In facilities that we contract out the work, that if we contract out the operation of the prison, we do not have factories in those facilities.

Senator FITZGERALD. How many prisons do you contract out that are run privately in the Federal system?

Mr. LAPPIN. Of the 176,000 inmates, we have about 18,000 in privately-run facilities. That is probably 12 or 13 facilities, thereabouts. I don't have the exact number with me.

These are primarily low-security facilities housing low-security criminal aliens, folks that are more than likely going to be deported. There are no factories in them.

Senator FITZGERALD. And those are operated on a contract? Some private company has a contract to run that prison?

Mr. LAPPIN. That is correct.

Senator FITZGERALD. Does the Federal Government pay for the construction of the prison?

Mr. LAPPIN. Typically, no. We only have one facility where it was government-built and now privately operated. The rest of those are built by the private contractor.

Senator FITZGERALD. OK. If some of those prisons are privately owned, that means somebody owns the prison and they have Federal inmates who are working in the Federal Prison Industries program?

Mr. LAPPIN. No.

Senator FITZGERALD. No?

Mr. LAPPIN. We do not have factories in those facilities.

Senator FITZGERALD. There are no factories in any of those facilities?

Mr. LAPPIN. That is correct.

Senator FITZGERALD. OK. Can State prisons participate in this program?

Mr. LAPPIN. States have different authorities that they work under. I know that States have prison industry programs. Some are under the PIE program. Some are run through other authorities.

Senator FITZGERALD. They make drivers' license plates or something like that?

Mr. LAPPIN. Yes.

Senator FITZGERALD. OK. By the way, I would be interested, if you could submit some information on the Federal prisons in Illinois. We have Marion Federal Penitentiary and then we have a few others.

Mr. LAPPIN. We have FCI Pekin——

Senator FITZGERALD. In Greenville?

Mr. LAPPIN [continuing]. Which is a 1,500-bed medium-security facility. We produce metal products there, chain link fence, prison doors, so on and so forth. We have a Federal prison or Federal cor-

rections institution in Greenville, Illinois, where we produce BDUs and other dress uniforms for the military.

Senator FITZGERALD. Did you say BDUs?

Mr. LAPPIN. Battle dress uniforms for the military.

Senator FITZGERALD. OK.

Mr. LAPPIN. And at Marion, we produce—we have a cable operation in support of military contracts.

Senator FITZGERALD. Yes, I have visited that operation.

Mr. LAPPIN. That is a high-security facility.

Senator FITZGERALD. OK. Could you provide any examples of items that FPI produces that are used by the troops in addition to the BDUs, battle dress uniforms?

Mr. LAPPIN. We have a number of contracts and products with the military. We produce Kevlar helmets, wiring harnesses, communication cables, battle dress uniforms, portable lighting, physical fitness uniforms, towels, sheets, items of that nature. We have one service group which is repairing vehicle and—it is vehicle and equipment repair. We repair Humvees that have been damaged. We refurbish engines, transmissions, items of that nature, to be put back in service with the military.

Senator FITZGERALD. Are you ever competing with the arsenals, the domestic arsenals, do you know?

Mr. LAPPIN. Actually, many of these customers came to us——

Senator FITZGERALD. OK.

Mr. LAPPIN. Because they were struggling, turning around these products and looking for one-stop shopping. Can you do the whole process? And as a result, much of this business came to us, as well as our fleet management program, which we do with the Marshals, INS, outfitting their vehicles. We purchase the vehicle. We outfit them. Again, because they were struggling, they were putting their law enforcement folks out trying to get all this work done. They were looking for one location where we could outfit the entire vehicle, deliver it, take care of their old vehicle, survey it, and do it more efficiently and effectively.

Senator FITZGERALD. OK. Now, Mr. Glover, in answer to questions by Senator Levin, it sounded like Mr. Lappin said he did not have a problem eliminating the sole source requirement that agencies have to go to FPI as long as the FPI could expand into a few other areas and remove some of the restrictions?

Mr. GLOVER. Senator, the union doesn't always have the same position as management, as you may know.

Senator FITZGERALD. Right. That is why I was checking. [Laughter.]

Mr. GLOVER. We are extremely concerned with the elimination of the mandatory source and I will tell you why, because we feel that peaks and valleys—we understand private business and we understand this controversy. But this program is designed to deal with Federal convicted felons and to get them better, to send them back to the street.

When you talk about the other programs in Federal prisons, they are very small. You have to have appropriated money to do that. Our funding has been chopped, essentially. We are running prisons at 87 to 91 percent funding levels, every facility in the system. You are starting out 10 percent short every day in staffing, in correc-

tional staffing, and at the same time, we are talking about cutting what we believe is our most important correctional program as far as—and it may only sound like 20 percent of the inmates who are eligible to work in this, but that is a large number on a day-to-day basis who are down in a Federal factory, in one of these factories doing something productive.

Working out on the rec yard or doing something up in the education department only lasts so long. Vocational training, that is a great idea. We support it. Give us the Federal funding to run it properly and put 300 inmates a day into a Federal vocational program. We will do it. We will work hard at it. We have no problem doing that.

But what we have seen over the years is less funding and then now, basically an attack on this Federal program, and we are going to have a problem trying to manage security. That is where we are at. I mean, that is where the union is at on this issue.

Senator FITZGERALD. How many of your union members are involved in supervising prison workers?

Mr. GLOVER. Prison industries?

Senator FITZGERALD. Inmate workers, yes.

Mr. GLOVER. Well, we have probably 2,500 employees, I would say, that are union members that work in the Federal Prison Industries program.

Senator FITZGERALD. And how many union members are there in all of the Federal prisons?

Mr. GLOVER. We have almost 20,000.

Senator FITZGERALD. OK, so about 10 percent of your union members are involved with the program?

Mr. GLOVER. Yes, sir.

Senator THOMAS. Just one follow-up question, Mr. Glover. You talked about eliminating the program. We are talking about competition. Are you opposed to competition? Don't you think that this program could continue to go and take away the mandatory aspect and continue to——

Mr. GLOVER. Here is what I am concerned with, Senator. The issue that we see is the competition is fine, but our problem is these peaks and valleys that are going to result in competition. We are not going to—our concern is to have a steady stream of work for the inmate population. When you have to lay in 200 inmates, which means send them back up to the housing units because you don't have something to produce that day, we are concerned with that stream of work.

The other issue with the bill, if you look at the way S. 346 is written, it doesn't allow us to go out into the—it doesn't allow us to repatriate work from overseas and services. It cuts services completely the way we see it.

And the other issue is, it doesn't allow us to do anything—you are cutting our market down. Basically, the Federal market is where we have worked forever. We are going to compete now for certain Federal product lines that we have gotten by mandatory source. So we are seeing a drop in employment, and the only reason we haven't seen a bigger drop is because of the war effort.

So our concern is that we need a steady stream of something for these inmates to do. I am going to tell you right now, the grass cut-

ters of America are going to yell at us if we cut grass. Every single interest group that we try to come up with something to do for these inmates—we went down and started doing the Park Service stuff for a while. We did some vocational stuff. We took them out to the Park Service to clean national parks. Employees in the National Park Service got upset because we had inmates down there working in the national parks. The same thing happened in the VA, where we had some programs to send them down to the VA to operate around the VA, cleaning up the areas, painting, those kind of things. Right away, the painters' union, everybody else, they all got upset.

Senator THOMAS. Just like your union is right now.

Mr. GLOVER. Exactly, sir.

Senator THOMAS. So it goes that way, that you have to talk about competition makes government more efficient. Competition gives the private sector, the people who pay your salary, a chance to do some things. So really, it is pretty tough to deny the fact that there ought to be an opportunity for the private sector to compete, and I understand what you are saying.

Mr. GLOVER. Could I just say one thing to that, Senator?

Senator THOMAS. I suppose.

Mr. GLOVER. I understand that issue. I understand it completely. My concern is that we are piecemealing this program. This is not a comprehensive change. This is taking a piece of the program out and not giving us anything to replace it with, similar to the 2,000 inmate jobs that we have already lost.

And so what we see happening is as this competition occurs, if we lose another 2,000 inmate positions and the staffing that goes with it, we are going to have a management problem.

Senator THOMAS. No one is saying you are going to lose it. You want them to compete for business.

Mr. GLOVER. I believe we will lose it.

Senator THOMAS. When you are in business, you have to take a chance. Everyone else in this place who is in business has an opportunity to lose.

Mr. GLOVER. I think where the Federal prisons——

Senator THOMAS. There is no way you can be competing with business and expect to be guaranteed to have services.

Mr. GLOVER. Sir, all I say is this. We are not businessmen. We are operating Federal prisons and we have to find a way to operate them.

Senator THOMAS. Thank you.

Mr. WILLIAMS. Senator, may I add a comment on competition? Defense Personnel Support Center in Philadelphia, this is the group of people that provide uniforms, medical supplies, and food for our troops all around the world, they were moving from one part of Philadelphia to another and they wanted a waiver from UNICOR for 3,500 work stations. UNICOR bid $8.6 million to furnish that office space. They were moving from one old building to another older building, so they had certain restrictions with what furniture they could buy.

Even though UNICOR knew that there was a bid for $4.1 million, less than half of their price, they would not give a waiver to the Defense Department for this move until someone in the De-

fense Department suggested, would this stand the test of public scrutiny? Within a day, they had a waiver and we proceeded through competitive bidding with a private company to furnish that facility.

So I think if they would compete as we have become non-mandatory and competitive and work with the private sector, I think they could flourish and find business lines to succeed.

Senator FITZGERALD. We are coming close to wrapping up, but I do want to ask a final question of Mr. Palatiello. You criticize in your opening statement the mandatory source status that was provided in the government procurement process to the FPI. Would you be happy if the mandatory source status were eliminated, or would you like to go further and eliminate FPI altogether? What is the Chamber's position?

Mr. PALATIELLO. We have never advocated doing away with FPI altogether. We have advocated, as Senator Thomas has so eloquently stated, we have advocated competition. We believe that is what the legislation before you does.

Senator FITZGERALD. OK. Now, there seems to be pretty widespread agreement that maybe we should do away with mandatory source. Even Mr. Lappin could support that under certain circumstances if you were given some ability to get into some other areas that would compensate for losing the mandatory source. Mr. Glover is not so sure about that. Could you think about that?

Mr. GLOVER. We would certainly look at whatever the Senate came up with, sir.

Senator FITZGERALD. You would think about it. Do you have any specifics on what other areas you would like to get into, Mr. Lappin?

Mr. LAPPIN. Again, I think——

Senator FITZGERALD. This bill just eliminates mandatory source, right? That is what it does.

Mr. LAPPIN. I think mandatory source, if it is eliminated, needs to be done in such a way that as it is being eliminated, we can transition into some of these other product areas and be competitive. It doesn't happen overnight. So I think there needs to be some consideration of that. I think we are exploring opportunities out there currently with the services, with some of the repatriated products. Granted, we take a risk just like everybody else does. We acknowledge that. But we believe there is potential there as long as the legislation was to allow us that potential.

Senator FITZGERALD. OK. Mr. Palatiello.

Mr. PALATIELLO. Mr. Chairman, I will leave to Senator Levin and Senator Thomas the reason why their bill is a little narrower than the House-passed bill. Part of it has to do with committee jurisdictions and the like.

But, for example, we support the House-passed bill and particularly a provision in there that would permit Federal Prison Industries to become engaged in work for nonprofit organizations, things like Habitat for Humanity. We think there is room for expansion in areas where there would not be an adverse impact on small business and their workers and yet still providing work and training opportunities for prisoners.

If I may, a couple of comments have been made during the course of the hearing that I think somewhat of just a very superficial discussion made and I would like to clarify a couple of things. First, if competition is injected, if there is still the demand for the product and services from the Federal Government, the supplier community is still going to survive and they are still going to thrive. They may become suppliers to the private bidders rather than to FPI, but they are still going to be suppliers.

Second, we cannot draw a line between appropriated funds and some sort of virtual funding. FPI deals 100 percent with appropriated funds. They are appropriated to the Department of Defense. They are appropriated to the Department of the Interior. They are discretionary, appropriated funds in the 13—well, 12 appropriations bills, because I don't believe they enjoy mandatory source to Congress. But they are appropriated funds. They all are.

With regard to repatriation, Mr. Lappin very carefully chose his words, but they get to decide whether something, in fact, is going offshore and they can now claim it. There is no independent certification by the Labor Department or the Commerce Department that this is a lost product or service and, therefore, again, they are judge, jury, and prosecutor. They get to decide. They do not do impact studies on services. Mr. Lappin was slightly incorrect on that. They are not required to under the law. They are only required to do so on products. They do not do competitive impact analyses on services.

I would like to enter into the record a brochure—now, this may be, and I will admit the Board did take action within, I believe, the last 2 years—Congressman Hoekstra brought to the attention of the FPI Board a drive-by situation and the supplier who FPI was turning around—whose work they were getting and turning around and providing to an agency was not even a U.S. company. It was a Canadian supplier, no value added on the part of the prisoners. It was when Congressman Hoekstra brought that situation to the attention of the Board that they finally adopted a policy for no more drive-by. But we have a brochure that has been jointly produced by FPI and one of its suppliers where it talks about that UNICOR is the exclusive agent for government customers and there is no value added on the part of these things.[1]

One final thing. The point was made that there is a 24 percent reduction in recidivism for those inmates who are through the FPI work program. What Mr. Lappin failed to tell you is there is a 33 percent reduction in recidivism for those inmates that go through vocational and remedial education programs, and that is from a study called the "Post-Release Employment"——

Senator FITZGERALD. Is that true, Mr. Lappin?

Mr. LAPPIN. Oh, it is, sir, and I would be more than happy to respond to that. We see great results from inmates who participate in vocational training.

Senator FITZGERALD. That sounded like we would have less recidivism if we place inmates in vocational training, instead of placing them in FPI.

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[1] The brochure provided by Mr. Palatiello appears in the Appendix on page 304.

Mr. LAPPIN. We offer a variety of vocational training, and our waiting lists for those programs are very small for those inmates who participate. We do not force inmates into vocational training programs. We do not force inmates into GED. We leverage them. We don't force them into those programs. Congress has passed a number of laws that have provided some of that leverage, especially for GED, which has been very beneficial.

But I resist, I guess, forcing inmates into programs. We all know what happens, when we force somebody into something that they don't really want to be there, the negative impact it has on all the other participants in that program. So we leverage, we cajole, we nudge. We are providing as many vocational training programs as I believe we need. It does have a great impact on those who participate. We are seeing 33 percent fewer coming back.

But again, no different than GED and vocational training, drug rehabilitation. We see varying rates of success, but all of them tend to see fewer inmates coming back to prison because of that participation.

Mr. GLOVER. Senator, may I add one thing to that that the Director may have missed?

Senator FITZGERALD. Sure.

Mr. GLOVER. Those programs are much smaller. The vocational training program, like at Petersburg, Virginia, for instance, they have one there. There are maybe 32 inmates in that program, not 250 that are working in the Federal Prison Industries factory. And again, this goes back to resources, I believe. If you want us to do more vocational training—the House bill, I would like to correct two things.

Senator FITZGERALD. You said you were open to that——

Mr. GLOVER. Well, we have no problem with it if it is funded. What the problem is, is when the funding doesn't come through.

Senator FITZGERALD. And that probably costs a lot of money to do that.

Mr. GLOVER. It is a lot of money.

Senator FITZGERALD. Yes.

Mr. GLOVER. But when the funding comes through, we are seeing a smaller dollar because of homeland security and because all these other things that are going on. We are seeing a much smaller piece of that pie to run Federal prisons on. We would be happy to explore more vocational training and rehabilitation.

One of the comments was that they have a Habitat for Humanity issue in the House bill. No one is saying what they are going to give us in funding to buy the raw materials, to build those things, and then to ship that out to Habitat for Humanity. Nobody has talked about how they are going to fund that, and it all goes back to that.

If you want us to provide more of those things, then we need more teachers, we need more certified recreation specialists, we need more people who can do vocational training, brick workers, masonry, roofers, all that stuff. You are going to have to increase staffing in the Federal prison to run it. What our bottom line is, is we want to make sure the prison is safe. We want to make sure our members go home after 8 hours with no problem in the prison. That is what it comes down to.

Senator FITZGERALD. OK.

Mr. LAPPIN. Mr. Chairman, I don't disagree, we have 7 percent of our entire population in vocational training. Granted, could we do more of that? It is possible. My concern is, will we get willing participants? It is foolish for us to invest money in those types of programs if, in fact, inmates are not going to willingly participate. Waiting lists are small.

What is really sad, and I have to say this, is granted we have 20,000 inmates working currently in Federal Prison Industries. It is the number of inmates that leave prison—there are at least 20,000 more inmates on those waiting lists to work at Federal Prison Industries that never, ever get into Federal Prison Industries. And what is sad is they are leaving prison after 10, 15, or 20 years with limited work skills because we failed to take advantage of this opportunity for willing participants to participate in this program.

Senator FITZGERALD. I understand.

Mr. LINDER. Senator Fitzgerald, two things I would like to say, that is very important. One, I think there has been a glaring omission made in all of the testimony today about one of the provisions of S. 346, and that is that all services for non-Federal services would be eliminated in this bill, meaning that there are no services permitted, period.

And another thing I would like to mention is I have heard people talk about value, best value. For several years, that is what the Department of Defense has required now in many of their contracts, is best value, and value is not just the bottom-line dollars, and I haven't heard one person here talk about the social conscience that is necessary when you talk about people in prison. In our American society, I thought we were trying to rehabilitate people, and if you think that is not important, please, just look Dino Ricciardone in the eye and tell him that is not part of your goal. It is a social conscience. That is what I have to say.

Senator FITZGERALD. This has been a wonderful hearing. You have all been very articulate and interesting witnesses. I think we learned a lot. I want to thank you for your attendance.

The hearing record will remain open until the close of business next Friday, April 16, for additional statements and questions. If those of you who are asked for additional information could provide that to the Subcommittee, we would appreciate it.

If there is no further business to come before the Subcommittee, this hearing is adjourned. Thank you.

[Whereupon, at 4:29 p.m., the Subcommittee was adjourned.]

APPENDIX

PREPARED STATEMENT OF SENATOR LAUTENBERG

Mr. Chairman: Thank you for holding this important hearing on the Federal Government's procurement policies and "FPI"—the Federal Prison Industries—which does business with government agencies under the trade name of "UNICOR."

I approach this difficult issue as a former businessman as well as a Senator from New Jersey.

American businesses large and small are hurting. This is especially true in manufacturing. It is tempting to believe that one of the problems American businesses face is trying to compete with prison labor.

As someone who started a successful business with two childhood friends in Paterson, New Jersey, I know that an efficient marketplace requires an "even playing field" and all businesses should have an opportunity to compete on price, product quality, customer service, and product delivery.

That has been the hallmark of our economic system.

As a result, Americans enjoy one of the highest standards of living in the world.

As a Senator from New Jersey, I also know that manufacturing jobs are disappearing from my home State at an alarming rate.

But I don't think we can blame this trend on prison industries. Rather, it is happening because of our increasing trade deficit, which reached a record level of 549 billion dollars in 2003. Our trade deficit with one country—China—increased by 20 percent to 124 billion dollars in just one year (2002 to 2003).

Manufacturers have borne the brunt of our trade deficit. Our manufacturing trade deficit rose from 430 billion dollars in 2002 to 471 billion dollars in 2003. Not surprisingly, the sector lost 582,000 jobs during that period.

I know that this hearing is not about trade policy but I mention these figures only to underscore an important point: Our trade deficit, along with the recent recession and productivity increases, account for the job losses in manufacturing.

We need to weigh the costs and benefits of the FPI program very carefully before we consider making any changes to it. At a minimum, we should wait until we hear from the General Accounting Office (GAO) on the subject.

There is great value to society in having Federal prisoners occupy their time constructively, develop a work ethic, and acquire job skills that will ease their transition back into civil society upon their release.

As former Deputy Attorney General Larry D. Thompson said, "although the FPI program produces products and performs services, the real output is inmates who are more likely to return to society as law-abiding taxpayers because of the job-skills training and work experience they received in the FPI program."

I agree with Mr. Thompson. Our Federal prisons house 176,000 people—mostly young men, mostly minorities, mostly poorly educated—many of whom will eventually be released into our communities, so it is imperative that we provide them with useful skills.

I think that restricting the FPI program will provide little relief for the private sector businesses that would compete with FPI for government contracts.

I am concerned that reducing the scope of and participation in the FPI program will make it much harder for inmates to acquire the work and social skills necessary for reentering society. Without such skills, they are more likely to become recidivists and harm the people in the communities they are attempting to rejoin.

This is a subject that requires careful deliberation so I look forward to hearing from our witnesses today since each one has expertise and an important perspective to share.

Thank you, Mr. Chairman.

Statement of
The Honorable Craig Thomas
U.S. Senator from Wyoming

"Legislative Hearing on S. 346, a Bill to Amend the Office of Federal Procurement Policy Act to Establish a Government-Wide Policy Requiring Competition in Certain Procurements from Federal Prison Industries"

Senate Governmental Affairs Subcommittee on Financial Management, the Budget and International Security
April 7, 2004

Mr. Chairman and members of the Subcommittee:

Throughout my career in elective office, in the Wyoming legislature, the U.S. House of representatives and here in the Senate, I have long recognized that there are instances in which government unfairly competes with, or displaces the competitive, private enterprise system. That is why, working in a bi-partisan manner with my colleague, Senator Levin, we have introduced S. 346 to establish a government-wide policy requiring competition in procurements from Federal Prison Industries.

I am pleased the subcommittee has agreed to hold this hearing. The bill before us today represents another step forward not only in injecting competition where we now have a monopoly, but in limiting unfair government competition with the private sector. This important and timely legislation will eliminate the mandatory contracting requirement that Federal agencies are subject to when it comes to products made by Federal Prison Industries (FPI). Under current law, all Federal agencies are required to purchase products made by the FPI. Simply put, this important bill will remove this mandatory sourcing requirement and call for the FPI to compete with the private sector for Federal contracts. Some progress has been made with procurement by the Department of Defense, via provisions in recent Defense Authorization bills, and through Senator Shelby's provision in the current fiscal year's Omnibus appropriations bill.

Currently, FPI employs approximately 21,000[1] federal prisoners or roughly 12 percent of a Federal prisoner population of 174,000.[2] These prisoners are responsible for producing a diverse range of products and services for FPI, ranging from office furniture to clothing, from electronics to eyewear, from military gear to call centers and laundry services, to mapping and engineering drafting. The remaining number of Federal prisoners who work, do so in and around Federal prisons.

While I believe it is important to keep prisoners working, I do not believe this effort should unduly harm or conflict with law-abiding employers, as FPI presently does. S. 346 not only seeks to minimize the unfair competition that private sector companies face with FPI, but also

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[1] Organization and Mission Statement, UNICOR 2002 Annual Report
[2] Federal Bureau of Prisons, February 2004

restores the authority and procurement decisions to where they belong...with agency contracting officials.

We will hear testimony today from representatives of America's business community who have been hurt by the unfair and monopolistic practices of Federal Prison Industries. Additionally, we will hear from witnesses involved in the government contracting process regarding the impact that FPI sole source preference has on federal agencies and the procurement decisions they make.

What began in the 1930's as a program to give inmates jobs skills for their re-entry into society has become a money making enterprise, expanding into a range of products and services offered in the private sector with little Congressional oversight. FPI has the advantages of paying lower wages from between .25 cents to $1.23 an hour. FPI is not subject to regulations such as benefits and retirement, health insurance costs, and compliance with OSHA regulations, as businesses are in the private sector. And, FPI has a guaranteed client base.

FPI's mandatory source requirement not only undercuts private employers throughout America, but its mandatory source preference often costs American taxpayers more money. I believe taxpayers would be alarmed to learn of the preferential treatment that FPI enjoys when it comes to Federal contracts.

It is ironic that in recent months as we have been debating the issue of off-shoring of American jobs, we continue to lose good paying American jobs to a government sponsored prison labor program. Frankly, it is alarming that our workers are losing their jobs in this manner.

As I said before, I support the goal of keeping prisoners busy while serving their time in prison, and this legislation is not about ending that. It is about competition. If we allow competition in Federal contracts, FPI will be required to focus its efforts in product areas that don't unfairly compete with the private sector. Clearly, competitive bidding is a reasonable process that will ensure taxpayer's dollars are being spent responsibly.

Of particular note, S. 346 allows contracting officers, within each Federal agency, the ability to use competitive procedures for the procurement of products as opposed to being forced to use FPI on a sole source basis. Our bill before the committee today allows federal agencies and procurement officials to select the FPI for contracts if they believe FPI can meet that particular agency's requirements. In addition, the product must be offered at a fair and reasonable price as a result of an open competition. The focus of our bill seeks to place the control of government procurement in the hands of contracting officers, rather than in the hands of FPI.

Opponents will no doubt argue that the removal of the mandatory sourcing requirement will somehow lead to idle prisoners, resulting in a more dangerous prison environment. Recognizing this concern, Senator Levin and I have included language that allows the Attorney General to grant a waiver to this process if a particular contract is deemed essential to the safety and effective administration of a particular prison.

Congress has taken steps to provide some relief from FPI's mandatory sourcing requirement within the Department of Defense, and just recently, for all federal agencies. In fiscal year 2002, FPI was ranked 72 on the list of top 100 DoD contractors. In 2003, FPI had moved up to 69. Clearly, FPI continues to do well in this area, despite new measures which allow the private sector to compete.

I am confident that by allowing competition for government contracts our bill will save tax dollars and restore management decisions to where they belong – with individual buying agency officials, not FPI. As Congress looks for additional cost saving practices, the elimination of FPI's mandatory source preference will bring about numerous improvements, not just in cost savings, but also a reduction of FPI's unfair competition with the private sector.

Again, I thank the Chairman and the subcommittee, as well as the Chairman of the full committee, Senator Collins, for recognizing the importance of this legislation.

Testimony of U.S. Senator Debbie Stabenow

Hearing on S. 346, a Bill to Amend the Office of Federal Procurement Policy Act to Establish a Government-wide Policy Requiring Competition in Certain Procurements from Federal Prison Industries

Before the Subcommittee on Financial Management, the Budget, and International Security
Committee on Governmental Affairs
United States Senate

April 7, 2004
Washington, DC

Good Afternoon. Thank you, Chairman Fitzgerald for calling this hearing. I appreciate the opportunity to testify along with my colleague, Senator Thomas.

I appear today as a cosponsor of S. 346, and more importantly, as a representative of many people and businesses in Michigan that are being hurt by the current anti-competitive laws that prevent Michigan businesses from competing against the monopoly called the Federal Prison Industries, Inc.

Right now, there is an entity with over $500 million in annual revenues, which does not pay local, state or federal income taxes, is not required to abide by federal or state workplace rules, and pays employees between 23 cents and $1.15 an hour. Mr. Chairman, this is not the Chinese government or a company in Mexico, but a government company established by the

United States Congress and run by the U.S. Department of Justice's Bureau of Prisons. In other words our own government is undermining our nations manufacturing industry.

In 1934 Congress established Federal Prison Industries, Inc. (FPI) and placed it under the control of the Department of Justice's Bureau of Prisons. FPI's purpose is to serve as a means for managing, training and rehabilitating inmates. And I support this worthy goal. Under current law FPI is a "mandatory source" for the federal government, making it the sole source for more than a half a billion dollars in Federal contract opportunities. Unfortunately, FPI also has the power to determine whether its product and delivery schedule meets the federal agencies needs, instead of the buying agency. Hundreds of small businesses from Michigan and around the country have seen FPI take jobs away from their companies and give them to inmates at federal prisons -- even when these businesses could have supplied the government with a better quality product on a better timeline, at a lower price.

In 2002, FPI's business in two industries that are critical to Michigan's economic health, automotive components and furniture, grew by 216 percent and 24 percent respectively. Furniture manufacturers in western Michigan are in the midst of their worst economic recession in history. For example, in January, Steelcase, a west Michigan furniture manufacturer, announced that it was cutting 77 of its skilled trades workers, which are some of the most highly skilled and highly paid jobs in the factory. The company also extended the lay-off warning for 60 days for another 360 employees. Over the last three years the office furniture manufacturing industry has had to lay off approximately 30,000 employees.

The inability of Michigan businesses to fairly compete with prison industries exacerbates an already difficult economic situation. According to February 2004 figures from the Bureau of Labor Statistics, Michigan's unemployment rate is 6.6% -- a full percentage point above the national rate. And last year, Michigan lost more jobs then any other state – 78,800 jobs lost in just one year. Michigan also had the largest unemployment increase of any state. In 2003, Michigan's unemployment went up 1.0%, the highest increase of any state. Michigan has lost over 175,000 manufacturing jobs since January 2001 – which is more than 19% of the state's manufacturing job base. This puts Michigan at the heart of America's manufacturing jobs crisis.

Mr. Chairman, let me be clear, I am not opposed to the 1934 law that created Federal Prison Industries, Inc. Prisoners should have work opportunities that build their job skills and enable them to make a successful return to society upon their release. However, it is only fair that our small business owners and manufacturers be able to compete for these federal contracts if they can offer competitive products and services. Our manufacturers are not asking for an advantage or to exclude FPI from competing. All they want is the opportunity to compete fairly and on equal footing for these contracts.

Because of Sen. Levin's leadership, the private sector can now compete for federal defense contracts. An amendment to the 2002 Defense Authorization bill ended the prison industry's monopoly over federal defense contracts so that businesses can compete. We must continue to level the playing field between private companies and the prison industry to enable fair competition for federal government contracts.

At a minimum, it is time to give the private sector access to the playing field and let it compete for federal contracts the prison industry now monopolizes. To do so, I am pleased to be cosponsor of S.346, along with Senators Thomas, Levin, Grassley, Chambliss, and Shelby. This bill will ensure that businesses in Michigan and the rest of America have the opportunity to compete for contracts with their government. The bill would also prohibit the prison industries from granting prison workers access to classified information or information that is protected under the Privacy Act. This provision is important for national security and comes at a time when America's security is a top concern for all of us. The bill would also clarify that private sector businesses and their employees must be permitted to compete for federal contracts as well as prime contracts. And finally, the bill would clarify that the general prohibition of sales of prison-made goods into private commerce is also intended to apply to sales of services. This provision is important as the services sector represents a growing portion of our economy.

Mr. Chairman. Thank you again for holding this hearing and giving me the opportunity to testify. Eliminating FPI's monopoly will make businesses eligible for more than a half-billion dollars in business opportunities. This would be a much-needed shot in the arm for many Michigan and U.S. businesses.

Department of Justice

STATEMENT

OF

HARLEY G. LAPPIN
DIRECTOR
FEDERAL BUREAU OF PRISONS
AND
CHIEF EXECUTIVE OFFICER
FEDERAL PRISON INDUSTRIES

BEFORE THE

SUBCOMMITTEE ON FINANCIAL MANAGEMENT,
THE BUDGET, AND INTERNATIONAL SECURITY

COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

CONCERNING

FEDERAL PRISON INDUSTRIES

PRESENTED ON

APRIL 7, 2004

Statement of Harley G. Lappin

Director, Federal Bureau of Prisons

and Chief Executive Officer, Federal Prison Industries

Before the Subcommittee on Financial Management,

the Budget, and International Security

Senate Committee on Governmental Affairs

April 7, 2004

Good Afternoon Chairman Fitzgerald, and Members of the Subcommittee:

I appreciate the opportunity to appear before you today to discuss Federal Prison Industries (FPI or trade name UNICOR). As the Director of the Bureau of Prisons, I also serve as the Chief Executive Officer of FPI, a government agency program which is the Bureau of Prisons' most important correctional management program. I am not involved in the operational details of the FPI program, but I have first-hand knowledge of the impact this program has in reducing crime, and in making prisons safer to manage and less expensive to operate. I have been with the Bureau for 19 years, serving previously as Regional Director and Warden at two institutions.

As you know, the Senate is considering two bills concerning Federal Prison Industries. This hearing is to consider S.346.

H.R. 1829, which was recently passed by the House of Representatives, has been referred to the Senate Committee on the Judiciary. The Administration has taken a neutral position on these bills. Therefore, I will not be commenting on the specifics of these bills.

The mission of the Bureau of Prisons is to protect society by confining offenders in the controlled environments of prisons and community-based facilities that are safe, humane, cost-efficient, and appropriately secure. We also seek to provide work and other self-improvement opportunities to assist offenders in returning to their communities as productive law-abiding citizens. In fulfilling its mission, the Bureau of Prisons is facing several challenges. The federal inmate population, now over 176,000 inmates, has increased six-fold in the last two decades, and it is expected to reach 215,000 by 2010. In addition, we are managing more dangerous and aggressive offenders including more gang-affiliated inmates, and we are encountering increases in inmate assaults on other inmates and on staff. To keep pace with the projected increase in the Bureau's inmate population, 17 additional prisons are planned for activation between 2004 and 2008 to confine high and medium security inmates. Congress has provided initial activation funds for 10

of these facilities (one in Fiscal Year 2003 and nine in Fiscal Year 2004).

Our mission is particularly challenging because the Bureau of Prisons has no control over the number of offenders who come into the prison system or over the length of time they stay in prison. We also do not control the offenders' backgrounds, including criminal histories, educational levels, substance abuse problems, etc., all of which impact their ability to adjust to prison and ultimately their ability to successfully reenter society. But we do have control over how inmates occupy their time while incarcerated. We also have some influence over how offenders leave our custody and the impact they will have on society, particularly public safety.

During the 3-year period from 2000 to 2002, the Bureau released back to local communities an average of approximately 40,000 inmates per year, a number that can only increase in years to come as the inmate population continues to rise, with the vast majority of inmates eventually being released from prison.

The Bureau of Justice Statistics has reported that recidivism among the state prison systems inmates increased over a recent 10-year period. During approximately the same time

frame, the federal inmates' recidivism rate declined. We know, based on rigorous BOP research, that this positive impact is due to inmate programs that include work assignments, drug treatment, education, vocational training, and others, all of which provide inmates with the skills and cognitive abilities to function successfully when they return to our communities.

Federal Prison Industries is one of the most critical components of the Bureau of Prisons' efforts to prepare inmates to successfully reenter society. The goal of the FPI program is to provide inmates with job skills training and work experience, thereby reducing recidivism and undesirable inmate idleness. Inmates who work in Federal Prison Industries are 24 percent less likely to commit crimes and 14 percent more likely to be employed for as long as 12 years after release, when compared to similar inmates who did not have FPI experience. Indeed, the FPI program provides the greatest benefit to minorities, who are often at greater risk for recidivism. These research findings have been favorably reviewed by nationally-respected social scientists and economists.

We focus the FPI program in higher security institutions -- those that generally have the most serious offenders. In fact, 76 percent of inmates working in the FPI program have been

convicted of drug trafficking, weapons, and violent offenses. FPI provides a program of constructive industrial work, providing sound job skills and positive work habits to inmates. Even before they are released from prison, it is apparent to prison staff that inmates who work in the FPI program have made substantial adjustments in their thinking and their behavior. When compared to similar inmates without FPI experience, the FPI program inmates are substantially less likely to violate prison rules, despite the extensive and violent criminal histories that are so common to these individuals.

Federal Prison Industries is unique among our inmate programs in that, by statute, it receives no appropriated funding for its operations. Earnings from FPI's industrial program are used for all operating costs of the program, including purchase of raw materials and equipment, staff salaries and benefits, and compensation to inmates performing in industrial work details. In addition, the FPI program pays for equipment and other start-up costs associated with activating new prison factories. The FPI program's purpose is <u>not</u> to be a business that generates revenue. Rather, it is a correctional program. There are many ways in which the FPI program does not and should not operate as a business: it sells its products to the federal government; it does limited advertising and marketing; it spreads its operations

across multiple business areas to lessen its potential impact on each of the industries in which it operates; and, most significantly, it is deliberately labor-intensive in order to train the largest possible number of workers. Although the FPI program produces products and performs services, <u>the real output of the FPI program is inmates who are more likely to return to society as law-abiding taxpayers because of the job skills training and work experience they received in the FPI program</u>.

Another secondary but important benefit of the FPI program is its ability to provide inmates wages that can be used to provide restitution to victims. The FPI program mandates that 50 percent of inmate wages be used to pay fines, victim restitution, and child support obligations, which helps those outside the prison system who were affected by inmates' conduct. In Fiscal Year 2003, inmates working in the FPI program paid approximately $3 million towards these obligations, with the vast majority going to victim restitution.

The FPI program also contributes significantly to reducing inmate idleness. Inmate idleness is problematic in a number of ways -- it undermines other rehabilitation programs and increases the risk of violence, escapes, and other disruptions. Idle inmates require more staff to monitor, which increases the cost

to taxpayers. Furthermore, as the amount of time inmates are idle increases, the rate of these problems does not increase linearly, but geometrically. Rapid growth of the inmate population has led to increased systemwide crowding, with the most significant crowding at medium and high security institutions. Our data indicates a high correlation between increasing inmate-to-staff ratios and higher rates of assaults. Thus, the FPI program is particularly important at higher security level institutions.

With regard to the FPI program's effect on the private sector, FPI attempts to go beyond its legal obligation to minimize any adverse effect, to focus on maximizing positive effects wherever possible. Last year the FPI program spent almost a half-billion dollars buying raw materials, equipment, and services from private vendors. This money represented 75 percent of the entire revenue earned by the FPI program, and more than 53 percent of this money went to small businesses, including businesses owned by women, minorities, and those who are disadvantaged. As a result of the FPI program's purchases, there are thousands of jobs in the private sector that are tied directly to the continued viability of the FPI program.

Despite the FPI program's positive impact on recidivism, restitution to the victims of crime, and its support for private sector businesses, we recognize there is an on-going debate regarding the FPI program, particularly as it relates to the FPI program's mandatory source authority. I would like to clarify that the so-called "mandatory source" rule does not mean that the FPI program can impose itself on 100 percent of any particular product or service. First, mandatory source does not apply to any of the FPI program's services or recycling activities. Second, mandatory source applies to products in a limited way. Recent legislation and FPI Board of Directors resolutions have dramatically reduced the effect of mandatory source.

We are sensitive to the concerns of government contract bidders and agree that any negative impact of the FPI program on the private sector should be minimized. Consistent with the Administration's position, any reform of the FPI program should simultaneously provide federal agencies with greater flexibility in buying products, increase access by private sector companies to government purchases, and ensure that the Attorney General maintains adequate work opportunities in federal prisons to reduce recidivism and counter the potentially dangerous effects of inmate idleness.

Efforts to reform the FPI program in a balanced manner are already underway. We are already working to reduce the FPI program's reliance on mandatory source, reduce capacity in office furniture, textiles, and electronics, and emphasize new areas for inmate jobs, particularly service jobs that are moving overseas. The FPI program's Presidentially-appointed Board of Directors has already taken several very significant and proactive steps as part of this effort, including:

- FPI's Board eliminated the FPI program's mandatory source for purchases up to $2,500. This change applies to all federal agencies and recently became effective pursuant to a Federal Acquisition Rules change.

- FPI's Board directed that the FPI program approve requests for waivers in all cases where the private sector provides a lower price for a comparable product that the FPI program does not meet.

- FPI's Board directed that the FPI program waive mandatory source for products where the FPI program's share of the federal market is 20 percent or more.

- FPI's Board directed any prison-made products sold by the FPI program must have at least 20 percent of its value contributed by inmate labor.

Beyond the efforts of the FPI program and its Board, Sections 811 and 819 of the National Defense Authorizations Acts of 2002 and 2003, respectively, changed the procedures for Department of Defense (DoD) procurement from the FPI program, and Section 637 of the Consolidated Appropriations Act, 2004, recently extended Section 811/819 requirements to civilian agencies. The effect of these laws was to enhance private sector access to federal procurements and to increase the frequency of instances where FPI must compete for a contract.

The FPI program has undertaken many modifications to respond to these recent changes in the law. FPI's sales in some product areas declined dramatically following passage of Sections 811 and 819. Corporate earnings were 87 percent below plan in FY 2003. The area of largest impact is FPI's office furniture program, which has historically comprised a major portion of FPI's sales. FPI's office furniture sales in FY 2003 were $70 million less than FY 2002 sales. This represents a 33 percent decrease.

The collective effect of the statutory, FPI policy, and other factors has been a decline in the FPI program's sales and earnings. As a result, the FPI program has had to close or downsize 13 factories, reduce operating costs, and reduce inmate participation by approximately 2,000 inmates, as well as FPI staffing by 97 positions. This has resulted in a reduction in the percentage of medically able, sentenced inmates in secure facilities working in the FPI program from 21 percent in FY 2002 to 19 percent in FY 2003.

The FPI program continues to seek ways to create new inmate jobs. FPI's future growth is focused on non-mandatory areas such as fleet management, recycling, and services. The FPI program also is continuing to examine ways in which it can improve its operations and increase inmate employment, such as by increasing vertical integration. This allows the FPI program to employ more inmates without a corresponding increase in output. All of these strategies are helpful; however, they will not entirely offset those inmate jobs lost as a result of FPI program decreases in its traditional industry of office furniture.

We support continued reform of FPI, including the elimination of FPI's mandatory source provision and the reduction of its reliance on traditional products, especially furniture,

textiles, and electronics, as long as the BOP is able to maintain its ability to provide job skills training and work experience to a growing federal inmate population. If the FPI program is not able to maintain its viability as a correctional program or is not able to maintain adequate levels of inmate enrollment, there will be a negative ripple effect. First and foremost, if fewer inmates develop the social skills of the workplace, recidivism will likely increase, at substantial future cost to taxpayers and victims of crime. Second, there will be an economic disruption to the small businesses that currently depend on the FPI program for their continued business success. Third, opportunities to provide restitution to victims of crime will decrease. Fourth, the risk of dramatically increased inmate idleness will threaten the safe and orderly operation of our federal correctional institutions. Finally, if the FPI program is no longer available to provide training to inmates, we will need to further develop alternative programs.

The Bureau of Prisons is getting significantly greater numbers of federal inmates who are serving more time in prison, are unskilled, undereducated, criminally sophisticated, and physically violent. Virtually all of these inmates will be released back into our neighborhoods at some point and will need job skills (vocational training), work experience (the FPI

program), and secondary education if they are to successfully reintegrate into society.

Like the FPI program, the Bureau's education and vocational training programs have been shown to have a positive impact on recidivism and an inmate's ability to find and maintain employment upon release from incarceration. However, these programs operate best as a complement to the FPI program, not a substitute for it. Education and vocational training programs alone do not provide inmates with sufficient job skills training and work experience during the length of their incarceration. Most education and training programs are provided on a part-time schedule, rather than for a full-day. Also, these programs are designed to run for only a limited time (vocational training typically runs 18-24 months in duration). The average sentence length for inmates in the Bureau of Prisons is over 9 years. In addition, unlike the FPI program, educational and vocational training programs require appropriated funding. Simply put, education and vocational training are extremely valuable programs that we utilize to the greatest possible extent. However, they are not substitutes for the extended real work experience provided by the FPI program.

The FPI program creates the opportunity for inmates to work in diversified work programs that teach work skills and a work ethic through day-to-day work experience, both of which can lead to viable employment upon release. With the Bureau inmate population projected to increase 22 percent by the year 2010, the greatest challenge facing the FPI program in the future will be its ability to continue to generate the requisite number of new inmate jobs and thereby help prisoners prepare for a crime-free return to their community after release.

Chairman Fitzgerald, this concludes my remarks. I would be pleased to answer any questions you or other Members of the subcommittee may have.

STATEMENT OF JACK R. WILLIAMS, JR.
ASSISTANT REGIONAL ADMINISTRATOR
FEDERAL SUPPLY SERVICE
REGION 3
U.S. GENERAL SERVICES ADMINISTRATION

BEFORE THE

SUBCOMITTEE ON FINANCIAL MANAGEMENT, THE BUDGET, AND INTERNATIONAL SECURITY
OF THE
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

APRIL 7, 2004

Chairman Fitzgerald and Members of the Subcommittee, I appreciate the opportunity to appear before you today, on behalf of the U.S. General Services Administration (GSA), to discuss your ideas to establish a government-wide policy requiring competition in certain procurements from Federal Prison Industries (FPI). GSA supports the Subcommittee's interest in requiring competition to the maximum extent practicable whenever taxpayer dollars are being spent to ensure positive results in government acquisition. Two fundamental principles need to be satisfied in any legislative or administrative reforms. Agencies should have the flexibility through competition to purchase quality goods and services at fair and reasonable prices with the expectation of timely performance. At the same time FPI is an important national program, and the Attorney General must be able to maintain adequate work opportunities at Federal prisons to counter the potentially dangerous affects of inmate idleness and prepare prisoners for reintegration into society. Finding a results oriented approach to meeting FPI's national objectives (providing work opportunities for inmates) while obtaining additional competition and transparency in the government procurement process will result in the taxpayer getting better value for their tax dollar and give the Federal agency customer a greater range of choices.

As this Subcommittee knows, the President has called upon the entire Federal Government to improve performance by focusing on results. Among other things, we have been charged with making our agencies citizen-centered, market-based and results-driven. Accountability requires that we spend the taxpayers' dollars wisely and provide greater insight into how their money is being spent. Senate Bill 346 and other Bills are being considered by the Senate with regard to the reform of FPI. The Administration has taken a neutral position on all bills. Therefore, I will not be commenting on the specifics of S. 346.

A number of previous actions by Congress and this Administration are promoting competition and helping create a level playing field with the private sector. GSA, the National Aeronautics and Space Administration, and the Department of Defense (DoD) revised the Federal Acquisition Regulation (FAR) four (4) times over the past year to implement results oriented reforms, namely:

- In May 2003, agencies began evaluating FPI's contract performance just as they would the performance of any other private sector firm – this is a results driven solution focused on actual contract performance. While this did not change FPI's mandatory preference status, it was an important first step in helping FPI better monitor and improve its own performance. Results oriented feedback has proven to be a critical tool for the private sector over the last two decades in terms of improving both products and services and its bottom-line, and now is being employed by FPI as they move toward being more competitive in the Federal marketplace.

- Second, the threshold for mandatory use of FPI was raised from $25 dollars to $2,500 in May 2003. This change by the FPI Board of Directors allows agencies to go directly to the private sector or FPI for any purchase under $2,500.

- Third, Section 811 of the National Defense Authorization Act for Fiscal Year 2002 was implemented by DoD, requiring that, before purchasing a product from FPI, DoD must determine whether the FPI product is comparable in price, quality, and time of delivery to products available from the private sector.
- Finally, this same requirement was extended to DoD and non-DoD agencies alike in Fiscal Year 2004 based on Section 637 of Division F of the Consolidated Appropriations Act of 2004 (Public Law 108-199). This statutory provision prohibits all Federal agencies from using their appropriated funds to purchase from FPI unless the agency making the purchase first determines that the FPI service or product provides the best value to the buying agency pursuant to FAR procedures. If the FPI's product is found to be comparable with private sector offerings that best meet the agency's needs in terms of price, quality and time-of-delivery, agencies should buy from FPI. If not, agencies are free to use competitive procedures, including FPI in the competition.

GSA supports reform of FPI and looks forward to working with this Subcommittee in making sure our procurement system is based on competitive procedures that are focused on achieving results. This concludes my prepared remarks. I am happy to answer any questions you may have.

Statement of the U.S. Chamber of Commerce

ON: PRISON INDUSTRY COMPETITION

TO: SENATE GOVERNMENTAL AFFAIRS SUBCOMMITTEE ON FINANCIAL MANAGEMENT, THE BUDGET, AND INTERNATIONAL SECURITY

DATE: APRIL 7, 2004

BY: JOHN PALATIELLO

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

Statement of the U.S. Chamber of Commerce
Presented by John Palatiello for the Legislative Hearing on S. 346, a Bill to Amend the Office of Federal Procurement Policy Act to Establish a Government-Wide Policy Requiring Competition in Certain Procurements from Federal Prison Industries Before the Senate Governmental Affairs Subcommittee on Financial Management, the Budget, and International Security
April 7, 2004

Chairman Fitzgerald and Members of the Subcommittee, I am John Palatiello, Executive Director of MAPPS, a national association of firms in the mapping, spatial data and geographic information systems field. I am also a member of the U.S. Chamber of Commerce and have the privilege of serving on the Chamber's Privatization and Procurement Council. It is on the Chamber's behalf that I appear before you today.

The U.S. Chamber is the world's largest federation of business organizations, representing more than three million businesses and professional organizations of every size, sector and region of the country. The Chamber serves as the principal voice of the American business community. Over ninety-six percent of the Chamber members are small businesses with fewer than 100 employees. The Chamber commends the Subcommittee for their interest in holding this legislative hearing on S. 346, a bill that seeks to infuse competition in the federal procurement process with regard to purchases from Federal Prison Industries. We would especially like to thank Senators Levin and Thomas for their leadership and dedication to reforming the unfair competitive practices of FPI. The Chamber respectfully submits these comments for the record.

FPI in the Free Market

Our free market system is essential to achieving and maintaining a vibrant and productive economy and is a necessary foundation of political and social freedom. The United States government is responsible for enforcing laws that promote competition in the marketplace and ensure a level playing field among competitors to benefit American consumers. Monopolies do not belong in a free market economy. When you remove competition from the equation you are left with higher prices, lower quality or service, and lower productivity as a result of lower efficiency. Non-market practices also stifle innovation and reduce the availability of goods and services.

This is exactly the situation with respect to FPI sales in the federal market. The federal government – the consumer in this case – is paying above market prices for lower quality goods and in doing so, is squandering American taxpayer dollars while completely ignoring the very rules it enforces in the commercial market. The Senate Governmental Affairs Committee has jurisdiction over the federal procurement process; a process aimed to deliver on a timely basis the best value product or service to federal agencies while promoting competition and reliance on the private sector for commercial items. Reform of FPI is aligned with the goals of this committee to ensure fair and full competition to ensure the best value for the American taxpayer while removing barriers that prevent businesses, particularly small businesses, from obtaining government contracts.

This Committee has a long history of advancing pro-competition, pro-reform procurement legislation, including the Competition in Contracting Act (CICA), the Federal Acquisition Reform Act, the Federal Acquisition Streamlining Act (FASA) and the Federal Activities Inventory Reform Act (FAIR). We believe S. 346 is the next logical reform in federal procurement.

The Need for Reform

In 1934, President Roosevelt established FPI as a government-owned corporation. FPI was given special "mandatory source" status in the government procurement process, forcing government agencies in need of a product to purchase that product from FPI. No consideration can be given to a private sector competitor unless that agency asks FPI for an exception from its own monopoly. It is ironic that there are laws prohibiting the U.S. from importing goods that are made by prisoners in other countries, yet we have laws that require our own federal government to buy goods and services from prisoners in this country.

Each year, FPI expands to produce even more goods and services. FPI's sales growth, all through non-competitive contracts, has been formidable: $546 million in 2000, $339 million in FY 1990, up from $117 million in 1980, and $29 million in 1960. Today, FPI produces over 300 products and services that in 2002 alone totaled $678 million worth of sales to the federal government, making it the 34th largest Government contractor. This makes FPI a formidable competitor even for a large private sector enterprise, much less a small business. Evidence indicates that FPI will continue its expansionist behavior, by exploiting its mandatory source status and increasingly encroaching on private sector industries in order to be a profitable enterprise, forcing businesses to halt production lines, lay off employees and even close their doors for good.

Ensuring a level playing field for the private sector in the federal procurement process by ending FPI's unfair advantage is a major priority for the Chamber. The Chamber has long-standing policy that the government should not perform the production of goods and services for itself or others if acceptable privately owned and operated services are or can be made available for such purposes. The private sector should be allowed to compete fairly with FPI for federal contracts – plain and simple – by eliminating the requirement that government agencies purchase products and services from FPI.

Reform of FPI starts with the realization that FPI has exceeded its statutory authority. They are free to set any price they want within the range of market prices with no incentive to charge the lowest price. Until the recent enactment of reform measures, FPI, rather than federal agencies, determined whether FPI's products and services and delivery schedule meets the agency's needs. While these reform measures have provided some relief, permanent comprehensive reform is needed to reign in this organization. By granting FPI a monopoly, issues of price, quality and efficiency fall by the wayside at the expense of U.S. taxpayers. Contrary to FPI's assertions, the General Accounting Office (GAO) reported in 1998 that FPI cannot back up its frequent claims about being a quality supplier to Federal agencies, furnishing quality products at low prices to meet their needs. Once

FPI commandeers a product, it erodes, displaces, or eliminates private sector competition, thus opening the door for it to raise its prices.

Recent aggressive expansion by FPI into the services arena has caused great concern in the business community. Even though FPIs authorizing statute does not specifically mention services, FPI has interpreted that it is a "preferential source" for services and used this to enter into sole source contracts with Federal agencies for services. They are quickly expanding their services portfolio, which includes printing, environmental testing, recycling, mapping and imaging, distribution and mailing, laundry services, data conversion, and call center and help desk support.

This expansion is alarming not only because it adversely impacts the private sector but also because it is wholly inappropriate to allow inmates access to classified or infrastructure information used in mapping projects or the personal or financial information of private citizens used in call center operations. We should be extremely cautious with the information we arm our federal inmates with in preparation for life beyond bars.

FPI's desire to expand into the commercial marketplace is an alarming development that is seen as a call to arms by industry. The Chamber opposes FPI's move into the commercial marketplace for four reasons. First, the decision to expand into the commercial marketplace is in conflict with the clear language of FPI's enabling legislation and beyond the discretion of the Board. Second, it is a reversal of more than sixty years of public policy. Third, this authority that FPI has claimed for itself without any specific legislative authority from Congress. Finally, the creation of a state run enterprise, competing with its own citizens, is a policy so at odds with the role of government in a free society that it is a decision best left to Congress.

Title 18 U.S.C. section 4122(a) specifically states:

> Federal Prison Industries shall determine in what manner and to what extent industrial operations shall be carried on in Federal penal and correctional institutions for the production of commodities for consumption in such institutions or for sale to the departments or agencies of the United States, but not for sale to the public in competition with private enterprise.

Now, however, despite this seemingly clear prohibition on entering the commercial market found in the statute, recent evidence shows that FPI has engaged in expansionist practices. Sixty-five years of public policy should not be overturned, especially without public debate. The United States should not be selling commercial services in competition with law-abiding taxpaying businesses, using prison labor that is paid no more than $1.25 an hour. FPI's expansion in the commercial market is a dramatic shift in policy, and in conflict with the clear language of 18 U.S. C. 4122(a). We urge that no proposal to inject Federal inmate provided services in the commercial marketplace be entertained by Congress.

While we are empathetic to FPI's goal to employ federal inmates to reduce recidivism by providing vocational and remedial opportunities while incarcerated, it should not be done at the expense of law-abiding, taxpaying businesses. It is unfortunate that in today's society we are faced with an increasing inmate population. However, we believe other sources of work opportunities for inmates should be explored that do not infringe upon the private sector's opportunities to compete for government contracts, threaten the general safety of our citizens, and provide for expansion in the commercial market.

Legislative Solutions

Legislative reform addressing these concerns is way overdue and more oversight by the FPI Board and Congress is needed now. Recent language enacted in the FY02 and FY03 Defense Authorization bills and the FY04 Consolidated Appropriations Act provides interim relief from FPI's monopoly by allowing federal agencies to decide how to best meet their procurement needs by examining existing marketplace opportunities and purchasing products on a competitive basis. The House recently overwhelmingly passed the Hoekstra-Frank-Collins-Maloney-Sensenbrenner-Conyers Federal Prison Industries Competition in Contracting Act of 2003, H.R. 1829, a comprehensive reform bill that eliminates FPI's preferential status. Clearly, the House, Senate and the Administration are in support of fundamental reform. FPI, reform supporters and FPI proponents alike agree that FPI's mandatory source status should be eliminated. S. 346 is the vehicle to make that happen.

For many years, the Chamber has been a leader in the broad-based Competition in Contracting Act Coalition, comprised of the business, labor and federal manager communities that advocate comprehensive, fundamental reform of FPI. The Chamber and the Coalition strongly support S. 346. This bipartisan legislation would impose overdue and much-needed restraints on the unfair competitive practices of FPI that inflict damage on law-abiding businesses and the workers they employ, while blatantly wasting taxpayer dollars.

S. 346 provides for fundamental reform while maintaining a process in which FPI can still sell to federal agencies but on a competitive, rather than a preferential sole-source basis. By amending the Federal Procurement Policy Act, it requires federal agencies to use competitive procedures for the purchase of products. S. 346 simply makes permanent the language included in the FY02 and FY03 Defense Authorization bill and the FY04 Consolidated Appropriations bill approved by the House and Senate and signed into law by the President. S. 346 would require FPI to be a more responsible supplier to Federal agencies and the taxpayer, and would allow the private sector to compete fairly with FPI for federal contracts by eliminating the requirement that government agencies purchase products from FPI. Agency contract officers, not FPI, would determine if FPI's offered product best meets buying agencies' needs in terms of quality and time of delivery.

Even with reform, FPI would still have an enormous competitive advantage over the private sector. FPI pays its inmates $.23-$1.15 per hour and is not required to provide any employee benefits like Social Security, unemployment compensation or insurance. In

addition, as a Government-owned corporation, FPI is exempt from Federal and state income taxes, gross receipts taxes, excise tax and state and local sales taxes on purchases. FPI does not have to pay for utilities or equipment and has a special statutory line-of-credit from the U.S. Treasury for $20 million at 0% interest. FPI is also exempt from standards, inspections or fines by various Federal, state or local enforcement agencies, such as OSHA, that regulate all private sector suppliers to the Federal Government.

S. 346 includes language that would prohibit inmates from having access to classified data, critical infrastructure data, and personal or financial data under any Federal contracts. The American people would be outraged to know that prisoners can given access to their credit card numbers, the address and value and tax assessments of others homes, as well as location information on our underground gas pipelines and other critical infrastructure that, if in the wrong hands, threatens our security. Simply yet adequately stated, sensitive information of this nature should not be in the hands of convicted criminals.

S. 346 also protects Federal prime contractors and subcontractors at any tier from being forced to use products or services furnished by FPI. FPI would no longer be able to force contractors to use FPI as a mandatory source for products or to be specified as a mandatory source on contracts. We have seen this new, expansive authority, which was not enacted by Congress through legislation, but claimed by FPI through interpretation, used, for example, to force architects and engineers to include FPI products in their design specifications, even if those products are not the most efficient, cost effective or appropriate solution.

To assure the safety of the prison guards and the inmates themselves, S. 346 would allow the Attorney General to award a contract to Federal Prison Industries if he/she believes that the loss of such prison work would endanger the safe and effective administration of a prison facility. While this is a valid concern, it is important to note only a small percentage - roughly 17% - of inmates actually work in the FPI program. The remaining able bodied inmates are engaged in various tasks relating to the operation and maintenance of the correctional facility. These tasks reduce the operating costs of the facility and keep inmates occupied in daily work activities.

Many concessions have been made on behalf of FPI reform supporters over the years and S. 346 provides additional safeguards in addition to a level playing field on which FPI and the private sector can compete. FPI asserts that comprehensive reform will cause inmate employment to decline, factories to be shut down, and sales to decrease. We argue that for <u>decades</u> businesses have suffered from declining employment rates and decreases in sales, and have been forced to shut down factories and production lines because of FPI's unfair competitive advantage and practices. Therefore, the time is now for balanced comprehensive reform.

Conclusion

Thank you for the opportunity to appear before you today on behalf of the U.S. Chamber of Commerce and to submit these comments on behalf of Chamber members that rely on an efficient, fair competitive process in providing the federal government with goods and services to maintain and grow their businesses. We appreciate the Subcommittee's

examination of FPI's impact on the private sector at this hearing today and urge quick consideration of S. 346 by the full committee. I'd be happy to answer any questions you might have. Thank you.

OFDA

Statement of

Kurt Weiss

The Office Furniture Dealers Alliance

Senate Governmental Affairs Committee

Before

Financial Management, the Budget and
International Security Subcommittee

Wednesday, April 7, 2004

301 North Fairfax Street Suite 200 Alexandria, VA 22314
P: (703) 549-9040 ext. 124 F: (703) 683-7552 E: pmiller@iopfda.org

Mr. Chairman, Ranking Member, and members of the Subcommittee, I appreciate the opportunity to testify before your subcommittee today to discuss S. 346, a bill which amends the Office of Federal Procurement Policy Act to establish a government-wide policy requiring competition in certain procurements from Federal Prison Industries (FPI).

My name is Kurt Weiss and I serve as Senior Vice President and General Manager for U.S. Business Interiors (USBI), a small office furniture dealership. I am here today testifying on behalf of the Office Furniture Dealers Alliance (OFDA) and the roughly 5,000 independent resellers of office furniture all around the country. OFDA is the national trade association for independent dealers of office furniture.

As an independent office furniture dealer this hearing is important because I hope it will shed light on the unfair monopolistic practices Federal Prison Industries has over small business.

As a small businessman I don't have a problem with open and fair competition. What I have a problem with is the fact that FPI is not competing with anyone, but instead guaranteed by statute all the government business it wants. For instance, if a government agency needs to buy office furniture, it must first look to purchase these items through FPI, regardless of price, quality of product, or service. If FPI can provide it, the government must buy the product from them, even if the agency can get a better product for less money from a small business like mine.

Its ironic that we have laws in this country that prohibit the United States from importing products that are made by prisoners in other countries, but here at home, our own government in many cases is solely dependent on prison labor for its goods. I agree with those who believe prisoners should learn skills and trades while incarcerated that they can then use outside prison walls to earn a living, but it should not come at the expense of honest hard-working small business men and women. And FPI should not be allowed to grow and expand at a time when this country's economy is struggling.

The mission of FPI when it was created in 1934 was to provide inmates with real skills that they could use once released back into society. This is nice in principle, but in reality, FPI is not living up to that mission. What you have today is a 1930's philosophy that doesn't fit today's FPI and its mission. If you look closely at FPI, its mission appears to be more about making a profit than it is inmate rehabilitation. A perfect example is in the area of office furniture. What you see is what we like to call "drive by manufacturing" or pass-throughs. "Drive-by" manufacturing is the practice where FPI outsources its work to a private sector manufacturer who manufacturers the product and ships it to the buying agency under the FPI label. This process defeats the purpose for which FPI was created. Learning to put a screw or bolt into a chair that is already assembled does nothing to train an inmate for stable work once released. In many other cases

the office furniture being delivered to the buying agency has zero inmate labor content.

"Drive-by" manufacturing, long condemned by this industry, takes job opportunities away from inmates and small businesses. The only beneficiaries of this practice are those running the FPI program. FPI will tell you that this is not a common practice. The fact that it happens at all should be appalling to both sides of this issue.

Reforming FPI should be a top priority of this Congress as this country has lost some 2.5 million manufacturing jobs and our industry alone has had to lay-off roughly 30,000 employees. In other cases our industry has had to go to four-day work weeks. We have had to cut pay and benefits. All this while FPI has continued to grow. The numbers are staggering. During FY'02 FPI generated $679 million in sales, of which, 33% or $218 million came at the expense of the office furniture industry. Why is FPI being allowed to grow at a time when we are struggling to provide jobs for hard working Americans?

I'm sure you will here today from opponents of S. 346, who will share with you the hardships they say are being placed on FPI because of actually having to compete for contracts with the Department of Defense (DoD). Its hard to feel sorry for FPI considering when DoD released its top 100 government contractors recently FPI moved up from 72nd in 2002 to 69th in 2003. Its clear that what is commonly referred to Section 819 has not had the damaging effect some had thought.

You will also not hear from our opponents about the advantages FPI has over the commercial sector. For instance, FPI can pay subminimum wages and I believe the number I've heard is inmates are paid from $.25 - $1.50 an hour. FPI does not have to abide by the same of rules and regulation that small businesses like mine do. FPI for instance does not pay employee benefits. FPI does not have to abide by OSHA rules and regulations. FPI does not have to pay medical benefits to its workers. And, FPI can use the Treasury as its own private bank. I wish my company could have these same opportunities -- Congress might allow us to be classified as a candidate for mandatory source.

You might also hear today that the FPI program is critical to reducing recidivism rates. Again, we support that idea, but what our opponents fail to highlight is that only 16% of the prison population actually are employed through the FPI program. This is a mere fraction of the number of inmates incarcerated. FPI also fails to highlight the fact that they are only employing the "best" inmate employees. It's a false statement to say that you are truly reducing recidivism when you're cherry-picking the best inmates, regardless of whether they are serving short sentences or serving life. How is the FPI program helping someone who is serving life to learn a skill they will be able to use? These individuals will never be released.

301 North Fairfax Street Suite 200 Alexandria, VA 22314
P: (703) 549-9040 ext. 124 F: (703) 683-7552 E: pmiller@iopfda.org

Another fact our opponents leave out is that the remaining 84% of inmates incarcerated in prison do work. These inmates are responsible for the general maintenance and upkeep of the prison. Some of these jobs include cooking, janitorial duties, and laundry services. Opponents will say these jobs don't provide real skill training inmates will be able to use once they are released back into their community. Well, Mr. Chairman neither is screwing a nut and bolt into a chair.

Mr. Chairman, another argument I'm sure you will here today for keeping the status quo is that the FPI program is critical to keeping inmates busy so that riots won't break out. We completely agree with the need to keep inmates busy to protect the safety of all prison guards. No one from the business-labor wants to see harm come to those asked to guard some of this country's most violent offenders. That is why if our opponents really read the legislation, they would see there is a provision that allows the Attorney General to reclaim FPI's mandatory source if the warden of the prison "determines that an award of a contract to FPI is necessary to maintain work opportunities not otherwise available at the penal or correctional facility that prevent circumstances that could reasonably be expected to significantly endanger the safe and effective administration of such facility." We support this provision and support keeping prison guards safe.

This subcommittee should not fear reform to this program, but rather should embrace it. S. 346 changes the way Federal Prison Industries (FPI) is able to operate and forces them to compete openly and fairly for contracts they are currently guaranteed by statute. The foundation this country was built on. This reform legislation is good for small business, inmates and the taxpayer. Aren't these the three constituencies Congress should be concerned with? Not how much revenue FPI can generate. S. 346 will finally force FPI to provide the "real" skill training inmate's need, while allowing small businesses to compete for government contracts on a level playing field. S. 346 will also allow contracting officers to spend taxpayer dollars more wisely.

I can tell you all about the hardships FPI has presented our industry, but I thought it was more important if you heard real life stories from constituents in your states whom have been directly affected by FPI in some way. The stories are real and the financial losses suffered should not be overlooked. This is lost revenue from small businesses in this country that follow the rules and therefore should not be penalized for doing so. (See attached stories).

Thank you for allowing me to come and share my story with you today. I would be happy to stay and answer any questions you may have for me at this time.

301 North Fairfax Street Suite 200 Alexandria, VA 22314
P: (703) 549-9040 ext. 124 F: (703) 683-7552 E: pmiller@iopfda.org

Dealer Stories

Mr. Chairman:

In October of 2002 I began working with Kevin Travell with Merriman and Assoc. on the furnishings for the new FAA facility at DFW Centerport. They where to move in the end of December and needed to decided on product quickly that could be delivered before the end of the year. We got a lead-time commitment from Knoll that they would be able to deliver the Equity product to meet their deadline. At this time the FAA had applied for their waiver and felt sure they would receive it due to the fact that Unicor could not meet the lead-time. After several committee meetings and plan review sessions Tusa was awarded the entire project. A few days later we were informed that Washington had denied their final request for a waiver and that Unicor had committed to meeting their move in date. The employees of the FAA and the designer were very disappointed that they where not able to order what they had selected. The outcome of this project was that Unicor was not able to deliver as promised and the FAA was not able to move into their new building until Feb. 2003. At that time they ordered a few ancillary items from Tusa Office Solutions, Inc. that they where not able to get from Unicor.

Christy Foster
Tusa Office
Fort Worth, TX

Dear Mr. Chairman:

My name is Patricia Holland-Branch. I am the owner, President and CEO of HB/PZH Commercial Environments, Inc. in El Paso, Texas. My business is listed as a Texas Historically Underutilized Business (HUB) and also registered with Minority Development Council in Dallas/Ft. Worth. I employee 27 people and have been in business for over 15 years.

Over the past 10 years, my business has lost significant business to Federal Prison Industries. We are a preferred Haworth office furniture full-service dealer in this region. We have lost systems furniture, case goods, filing and seating projects in addition to design and installation services to FPI at Ft. Bliss, the new FBI facility, and the newly constructed Texas State Building. Federal Prison Industries has encouraged even local governments and universities to choose prison products over those manufactured and sold by private industry. Our direct losses over the past ten years can easily be measured in millions of dollars in sales revenue.

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Our lost opportunities have forced us to reduce staff. We went from 35 to 27 employees. We are considering completely eliminating the products part of our business, as we see more infiltration of prison products into all levels of federal, state and community organizations. This will be a travesty, as it will lead to further layoffs from dealerships such as ours in a city already experiencing double-digit unemployment. It is a real crime that our nation's tax-payers are suffering because prison products are the preferred source and government entities are not required to bid their projects between private industries and FPI. I am confident that our products and services are far superior, more competitively priced and with shorter lead times then products manufactured by prisoners.

Sincerely,

Patricia Holland-Branch
HB/PZH Commercial Environments, Inc.
El Paso, Texas

Dear Mr. Chairman:

My name is Reed Lampley the owner of Coastal Offices Systems & Supply Co. in Chesapeake, Virginia. Over the past 10 years since the inception of my business, I have probably lost a total of 1 million + in sales due to the restrictions placed upon government agencies in the tidewater area to buy strictly from FPI. The thing that bothers me about this is: Repeatedly I proved I could deliver quicker (usually 2 to 3 days compared to 2 to 3 months) the same quality furniture at less cost to the government than FPI.

How many prisoners do you think go into the furniture business after release from prison compared to the small business owner struggling to make ends meet? That is the question that should be answered.

Thank you for allowing me the opportunity address your committee today on this very critical issue and tell you how FPI's current practices hurt my business.

Sincerely,

Reed Lampley
Coastal Office Systems
Chesapeake, VA

Dear Mr. Chairman:

I can recall most vividly one order we lost to UNICOR. The Social Security Administration in Baltimore put out for bid 2000 foot rests. I took them a sample of a new product, which exceeded their specifications and was cheaper than they had anticipated. However, when time came to actually go through with the deal, I was informed that while I had a better product, a better delivery date, and a lower price, they were required by statute to buy the product from UNICOR even if it was not the best product. I for one have stopped soliciting bids from the Federal agencies because it's become a waste of time. Time and again we are told that by agencies that they are required to purchase their office products from FPI.

At one time, we did a nice business with the federal government, but now we do less than $20,000.00 a year. We also have reduced our staffing from 9 employees to 2 full time and 1 part time. Your help is critical to the survival of small dealerships like mine.

Sincerely,

William H Shaprow
Regester Office Supply
Baltimore, MD

Dear Mr. Chairman:

My name is Leigh Hoetfelker and I am President of Fremont Office Equipment Co. in Fremont, Nebraska. I am a small dealer employing 60 people.

Plain and simple, Federal Prison Industries has taken all of our furniture business that we bid to the State of Nebraska offices. Until a couple years ago, dealers in the state had the opportunity to bid on the States furniture requirements. That is no longer the case. Because of the requirements to buy from FPI, we are constantly told that agencies must buy from FPI regardless of price, quality or timely delivery. I don't run my business that way and often wonder why the government chooses to run its business that way. We saw our yearly sales to the State of approximately $100,000.00 in furniture alone disappear completely. All this because the state is required to buy from FPI. I say this in jest, but it seems like if I wanted to do business with the state or Federal government, I should become a convicted felon -- I might have a competitive advantage that way.

Sincerely,

Leigh Hoetfelker
Fremont Office Equipment Co.
Fremont, NE

Dear Mr. Chairman:

In the fall of 2000, The University of Northern Iowa was completing the Lang Hall building renovation. Matt Parrott and Sons holds the contract for HON/Allsteel with the University of Northern Iowa. We received an order for some storage, lateral files, task seating, and soft seating, but were denied an order for all the drawer pedestals. The drawer pedestals amounted to approximately $35,000.00 in sales, but because of the obligation to fulfill commitments to FPI, the University elected to purchase the drawer pedestals from FPI. I was told, although I haven't confirmed, the University spent a third more money to purchase and fulfill this commitment to FPI.

I was involved in a meeting with George Pavelonis, Facilities Planner and Carol Christopher, Assistant Facilities Planner, prior to this decision. They talked about how they haven't done very much business with FPI, so they probably would need to send the drawer pedestal order to them. I asked about the drawer pedestal quality and pricing. At that point, they both conceded to the fact the Allsteel pedestals were better quality and less money. They also said the lead-times were a lot longer.

Sincerely,

Lori Knaack
Matt Parrott & Sons
Waterloo, IA.

Dear Mr. Chairman:

My name is Billy Carroll; I am an outside sales representative with C & C Office Supply Co. in Biloxi Mississippi. Our company has been in business over 20 years and we employ 20 people.

During the course of our 20-year history we have done considerable business with numerous governmental agencies and military installations. Some of them being Naval Construction Batallion in Gulfport, Mississippi Air National Guard in Gulfport, Keesler Air Force Base in Biloxi, Naval Station in Pascagoula, and NASA in Stennis Space Center.

As a result of FPI's unfair monopolistic practices, we have seen sales from these governmental agencies go from $100,000.00 a month too less than $5,000.00 a month.

There are numerous horror stories we hear from our customers who deal with UNICOR. The most recent one being that a customer had to wait 5 months to get their furniture. When the furniture finally arrived, it wasn't even what they had ordered. This is something that would have been averted had they been able to use our company or another dealer.

I could go on about how we could have sold the product much cheaper, which would have saved taxpayers money, faster delivery, which would have increased employee productivity, and finally better service, but I won't. You get the picture.

Sincerely,

Billy Carroll
C&C Office Supply Company
Biloxi, MS

Dear Mr. Chairman:

I personally worked with the staff who had just moved into a new ward at Walter Reed Army Medical Center. We had two meetings during which I took measurements and went over in great detail the furniture items they needed for the report room, reception area, patient education room, two offices and some miscellaneous shelving. The total I quoted to Walter Reed was approximately $13,000 and met their needs exactly. This was in April of 2000. Our delivery would have been completed within a month.

Because Walter Reed couldn't get a UNICOR waiver (just to determine this fact takes at least 6 weeks) the order was placed with UNICOR and took eight months to be delivered (it just showed up last week) and much of it was not what officials at Walter Reed even ordered. FPI tells their customers what the customer can have rather than meeting the needs of the customer. As an example, we had designed a workstation for the report room to accommodate four computers. UNICOR sent an expensive, massive cherry workstation for an executive office that had to be put in someone's office (who didn't need new furniture) because it was unusable where it was supposed to go. UNICOR charged an additional $1,500.00 to assemble this (and didn't have proper tools to finish the assembly). Our price for the proper item including all set up was less than they charged for set-up alone.

You know, it's not just the impact FPI has on our businesses, it's the waste of everybody's tax dollars when furniture costs more and doesn't even do the job.

Sincerely,

Diane Lake
Economy Office Products, Inc.
Fairfax, VA
(A small, woman-owned business employing approx.19, in business since 1968)

Dear Mr. Chairman:

My name is Gregory Wickizer and I own Tippecanoe Press Inc. in Shelbyville, IN and employ 20 employees. I recently lost a $300,000.00 to $400,000.00 bid because of a must buy in the State of Indiana.

To a business like mine, this is real money lost. I guess my question is why should my company lose out on business just because the government has to buy it from prisoners. I thought the philosophy in this country was that competition is healthy and the best offer should win out. That does not appear to be the case and it hurts companies like mine who are trying to survive.

Sincerely,

Gregory Wickizer
Tippecanoe Press Inc
Shelbyville,IN

Dear Mr. Chairman:

My name is Joe Kiefer, I work for Shaheen Office Supply in Warner Robins, GA. Our company has lost many opportunities in the name of UNICOR, the most recent being last year. We are a Haworth Dealer, and serve the Middle Georgia community, Robins AFB being our largest customer.

The most visible loss to UNICOR was with the 116TH Bomb Wing at Robins AFB. We were able to secure some business at their new facility, about $200,000, but I know UNICOR received over $800,000 of furniture business there. For the projects we did receive, I saved this customer 20-30% over the UNICOR proposals, and provided them with better quality furniture.

Sincerely,

Joe Kiefer
Shaheen Office Supply
Warner Robin, GA

Dear Mr. Chairman:

I'm no longer at the company I was at (Marvel Group) when this story happened to me, but I thought it should be shared with you.

Last summer I began working with Air Force Recruiting to provide them with furnishing for their new recruiting offices nation-wide. I was working with the individual offices throughout the country and received orders for $80,000 from the Air Force Recruiting Squadron (344th) at Scott AFB. They liked my services so much that they recommended me to the other offices with the same needs nationwide. My furniture was less costly than FPI and had significantly better lead times (about 2 weeks) and was of overall better quality.

I spent several weeks traveling to different sights and doing quotes only to be stopped by a Colonel at AF Recruiting HQ in Texas. The Colonel believed that since FPI was a required source that there was no reason to use me even though their budget would have allowed them to furnish far more offices with my product than with FPI. My estimates are that this decision cost my company $500,000 - $700,000 in sales and probably cost the Air Force several hundred thousand dollars. I have since left government sales do to a lack of sales - mostly contributed to denied waivers by FPI.

Sincerely,

Gary Stephens
Workspace L.L.C

Dear Mr. Chairman:

I am concerned in the way tax payer's money is being wasted. A few years ago I had proposed over $100,000.00 in chairs to the VA Medical Center. They were excited about the chair I was proposing on contract. The chair was less expensive than the chair proposed by FPI. The customer also recognized that the chair I was proposing was better in quality and had more ergonomic features, which would assist in some of their health issues. Another comment made by the VA was the problem with the FPI chairs breaking easily. Parts were near impossible to get, so they would throw the FPI chair in the garbage.

In this situation FPI denied the VA waiver. Regretfully they had to buy FPI chairs. I can not believe this happens in America.

Sincerely,

Rick Buchholz
Christianson's Business Furniture

Dear Mr. Chairman:

I am delighted to have the opportunity to tell you about challenges that I have encountered with the Ohio Penal Institute (OPI) and State of Ohio Agencies. I focus on selling to State of Ohio Agencies and most are required to buy from OPI.

Last year I worked on a state library project. They currently had all Haworth furniture that they had purchased over the past 13 years, so they had a few different vintages. My proposal planned on re-using about 25% of that existing product, but I also got special pricing from Haworth that was much deeper than normal state contract pricing. State Purchasing required the Library to get a waiver from OPI for which OPI rejected my proposal. Not only does my product come with a Lifetime Warranty and is a Grade A product with a 4-week lead-time, but my pricing came in at over $100,000 LESS than the Ohio Penal Institutes proposal. It is very frustrating as we put a significant amount of time into this proposal and felt that we were providing this client with the best product at the best price.

Example 2: Rehabilitation Services in Columbus. They have all OPI chairs that are very uncomfortable and not ergonomically designed. I brought some Haworth chairs to their office to pass around for a 3-week trial period. My chairs were unquestionably selected as the chair they wanted to purchase going forward. Not only are my chairs some of the most ergonomic in the industry, but I was saving Rehab Services almost $100 per chair. OPI rejected their request to purchase Haworth chairs.

Ohio's Governor has put a hold on any extraneous spending at this time...and it is indefinite as to when he will raise this request. Every year thousands of dollars are spent on OPI's products, which do not come with any warranties and cost generally 30% higher than the best products on the market. Our taxpayers are paying for this.

Thanks for the chance to share just a few examples with you.

Sincerely,

Chris Kelser
King Business Interiors

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301 North Fairfax Street Suite 200 Alexandria, VA 22314
P: (703) 549-9040 ext. 124 F: (703) 683-7552 E: pmiller@iopfda.org

Dear Mr. Chairman:

My name is Jeff McKenzie and I work for Landis Office Center, which has 26 employees. We have a federal prison in our area and a division called UNICOR. When the prison was first established we sold over $60,000.00 to them in the first year. After this, UNICOR stepped in and started supplying most items to this facility. Even if we were called and did measurements and suggested furniture, of course spending multiple hours doing this, we were informed that furniture would be secured from FPI. Why should we as citizens pay at least $40,000.00 per year to house convicted prisoners and then we allow them to produce goods that are sold against companies that must pay taxes, pay at least minimum wage, plus all the other red tape that comes with operating a business. It is very unfair that the government allows this to happen, much less, entertain the argument that Federal Prisons should be able to expand their markets. It is time to put a stop to this before you put more small businesses out of business.

Sincerely,

Jeff McKenzie
Landis Office Center

Dear Mr. Chairman:

My name is Joseph A. Nordman III and I am with PS Group/Cincinnati, Inc. Federal Prison Industries has taken multiple projects from my company, PS Group/Cincinnati, Inc. and has cost us hundreds of thousands of dollars.

PS Group has worked with the Cincinnati office of ATF since 1995, supplying product and labor to enhance the existing Haworth product. PS Group even went to Dallas, Texas to allow the ATF to work that existing product into the existing Cincinnati product in order to save money. After spending all of this money, time and energy, Federal Prison Industries claimed the project – at a premium price well above the Haworth price. As a result, all of the existing Haworth product has had to go into storage (An additional cost not anticipated by the local ATF office).

The total Waste:

- Existing Cincinnati station, 40 plus
- Additional 21 stations from Dallas
- Dallas inventory to be used against new product

- Possible buy back of all existing, should ATF want to purchase all new
- FPI product not compatible, so all-258 stations were new, with no credit for buy back, at a cost significantly higher than the Haworth.
- The Government paid to inventory and ship 21 plus stations to Cincinnati, put those stations into storage and then scrap all 61 plus stations.
- The ATF constantly tells PS Group that they can't get service for the Prison Industries Product
- More product to be ordered

Sincerely,

Joseph A. Nordman III
PS Group/Cincinnati, Inc.

Dear Mr. Chairman:

My name is Janet Ockerhausen with Business Interiors of Texas, Inc. in Corpus Christi, Texas.

In 1999 Naval Air Station in Kingsville, Texas contacted me for furniture in an Air Training wing for VT-21 and VT-22. They needed a drawing and prices for approximately 12 rooms as soon as possible. My company worked over the weekend to get these to them, the total was $150,000.00 worth of furniture. When UNICOR saw the amount, they refused the waiver. The end user gave my drawings and specs to UNICOR, which they copied down for every room layout, and even the color. So, at my own time and expense, I received nothing for this work and UNICOR received $150,000.00 with no time involved because they had copied my designs.

I make my sole living and income by selling to federal government agencies and UNICOR takes this business away from me.

Sincerely,

Janet Ockerhausen
Business Interiors
Kingsville, TX

Dear Mr. Chairman:

301 North Fairfax Street Suite 200 Alexandria, VA 22314
P: (703) 549-9040 ext. 124 F: (703) 683-7552 E: pmiller@iopfda.org

We are located in the Dayton, OH area, home to Wright Patterson AFB. We are up against UNICOR on a daily basis. Some of the more recent projects include:

Sensor's Directorate. This project is 200 workstations plus seating, files, and private office furniture. They are required to use crescendo, even though they have over 400 workstations of existing Haworth product in the facility. The mockup for this project took 16 weeks to arrive, yet they are promising to meet a June 1 shipping deadline. $1,000,000 worth of UNICOR product is proposed.

Building 20052, Area B. All seating, freestanding casegoods and workstations are UNICOR Classic XXI, approximately 75 workstations, 15 private offices and seating for offices/workstations/conference rooms. Approximate value $450,000.

Sincerely,

Kim Duncan
Elements IV Interiors

Dear Mr. Chairman:

During the past 5 years I have had representatives from UNICOR tell my customers that they had to turn over my proprietary designs to UNICOR, without payment to the dealership. They have told my customers that if they do not buy UNICOR, they will be "reported to congress" and that there is no place else to go for government furniture. They frighten young department of defense officials with words like "illegal" when they ask about waivers.

The UNICOR reps routinely refuse waivers on the first approach. The answer is a standard "UNICOR has products which will meet your needs." No explanation. They refuse to answer waiver requests in a timely fashion. I have had $110,000 order for the Arizona Air National Guard in Tucson literally taken away by UNICOR. The representative demanded the designs and said that UNICOR would fill the request. There would be no waiver and no discussion. And she was right. Despite the fact that all of the programming phase had been completed by my designers, at no cost to the federal government, this rep insisted that she knew what was best for this customer. Of course, the products arrived late, in poor condition, was much more expensive than the budgeted GSA furniture--and the reps have not been heard from. The answer is "a 10% discount" or a "free chair."

In Texas, my representative worked for 4 months with a customer, completing designs and meeting all relevant criteria. She proposed only products on GSA contract. UNICOR unilaterally refused to waive the chairs, approximately $50,000 worth, because their factories were not at capacity. The fact that the UNICOR chairs do not meet the price point, that UNICOR spent no time with the

customers determining function, color or other requirements has no meaning. The seating portion of the order is lost. The remaining portion would have been lost, as well, if the customer had not spent approximately 30 days going from one appeal process to the other attempting to get waivers. Very few customers will take the time to do this. Of course, when the project finally arrives, it will be late and missions will be compromised.

Interestingly, my husband's father was murdered several years ago. The same prisoner that killed this fine man is now in an Alabama prison--taking away my livelihood. Please, please get this legislation in front of someone who cares about small business.

Sincerely,

Ruthanne S Pitts
Simmons Contract Furnishings
Tucson, Arizona

Statement of Andrew S. Linder
President and Owner
POWER CONNECTOR INC

Statement before the U.S. Senate Committee on Governmental Affairs Subcommittee on Financial Management, the Budget, and International Security

Hearing on S. 346

April 7, 2004

Mr. Chairman and Members of the Subcommittee. My name is Andy Linder. I'm the President and owner of Power Connector, a small electronics business based on Long Island, NY.

Power Connector went into business on April 1, 1987 – 17 years ago last week.

When we first put the key in the door, it was just a two-man company.

Just two people and a lot of hope.

In 17 years, we've grown a lot. Now there are 76 employees, not just one.

We've built what I think is a solid reputation producing high-quality, reliable electronic connectors and cable hardware for the United States military. Mostly, we supply components to the Department of Defense, Federal Prison Industries and to our nation's primary defense contractors.

Our products are relied on every day by American forces all over the globe, including our men and women in Afghanistan and Iraq. My employees and I are still especially proud that some of the electronic components we made went into the transmitter that helped save the life of Air Force Captain Scott O'Grady after his plane was shot down in Bosnia in the summer of 1995.

The story of Power Connector is very much the story of Federal Prison Industries.

It's a story that's typical of thousands of other private sector small businesses in every State, who've been helped by Federal Prison Industries over its nearly 70 years of existence.

It's a story that'll come as a surprise to those who believe Federal Prison Industries poses some kind of "threat" to the private sector.

And it's a story that needs to be told as you hold this hearing on S. 346, legislation that I believe would suffocate Federal Prison Industries, and the vitally important work it does.

That's because Federal Prison Industries isn't just about inmates. It's about thousands of small businesses, just like mine -- many of them female- or minority-owned. Those thousands of small businesses, my own included, have contracts with Federal Prison Industries – contracts worth more than half a billion dollars in gross revenues in 2002 alone.

We've capitalized and hired employees on the strength of those contracts. Our employees and their families count on those contracts. In fact, for every dollar purchased by Federal Prison Industries, 74 cents goes directly back to small businesses just like mine. We're the ones who supply the raw materials, the component parts and the services that make possible FPI's work with inmates.

Each of us – each of our businesses, our employees, our suppliers – are directly in the path of efforts by some in this Congress to turn back 70 years of success with Federal Prison Industries and force it, instead, into an impossible competition with the private sector.

Senators, Power Connector would never be in business today without Federal Prison Industries.

That's because it's awfully hard for any company – much less a two-man company -- to even *submit bids* to the federal government, much less to deliver a product up to specs.

But Federal Prison Industries isn't like much of the federal government: they recognize the gains to be made when dealing with small businesses like ours, and they make doing so a priority. They broke down their Army contracts and asked small businesses – ours included – to bid on

proto-types. They developed a unique partnership with small business, whereby they bore high costs for testing and for research and development. They mandated small business participation in the competitive bidding process. And they acquired the components for the finished cable assemblies which allowed companies like mine to participate.

By taking on the financial burden for the testing of proto-types, Federal Prison Industries eliminated the single biggest financial barrier that stands in the way of small companies like ours. That expense is the major reason, in my mind, why other government contracts of this type seldom are awarded to small companies like mine, and why, instead, they wind up going to big companies with more capital and human resources.

As a result of FPI's efforts to work with the small business community our products were approved. FPI provided the intensive labor required, we provided the component parts. We had to bid competitively on these contracts, and I am proud to say my company won the bids for the component parts.

Unlike other federal agencies, Federal Prison Industries gave us the one thing we ever asked for, then or ever since -- *a chance*.

They were hard taskmasters when it came to quality, but we delivered – on time and under budget.

We've *kept on* delivering to Federal Prison Industries, too -- for 17 years now, products now worth $14 million a year.

Federal Prison Industries doesn't concern itself with how *big* you are, but with whether you can deliver on time and up to specs. If we could meet military standards and perform, being a small, start-up business was not a liability.

That's part of FPI's mission – to partner with small businesses to help us get the kinds of contracts for which we could otherwise never compete.

During Power Connectors first few years, we had no customers *other* than Federal Prison Industries. Every dollar of our business, every individual employee, every dime of taxes we paid, was directly the result of Federal Prison Industries. Our company would never have survived without them.

Even today, 19 out of our 76 employees – roughly one-quarter of our workers, owe their jobs to Federal Prison Industries. That's also a testament to FPI's efforts to reach out to small businesses.

Power Connector today has more than 38 employees who work every day fulfilling contracts with other government agencies and military defense contractors – contracts that don't involve FPI. None of those contracts – not one – would have happened had we not been able to build a credible performance track record with FPI.

By giving us the opportunity to prove ourselves at a time when most agencies or defense contractors wouldn't have given us a second look, FPI gave us the chance we were looking for 17 years ago.

And Power Connector isn't the only company involved. In addition to our own success, the subcontracts we have outsourced over the past 17 years to over 45 other small businesses has created jobs for 147 full time employees outside our doors.

It's my firm belief, moreover, that only the electronics division of Federal Prison Industries has the capability of satisfactorily supplying the government's cable, harness and mechanical assembly requirements during times of war or extended periods of military conflict. Federal Prison Industries has the experienced manual labor and the supervision necessary to perform this work.

During the period from the mid nineties up to 9/11/2001, there was a steady decline in the number of private military contractors who could perform this type of work as the defense budget for military products was reduced. These assemblies are used in the military's tactical communications systems. The sheer volume and scope of the military's needs for these products would overwhelm the capacity of any domestic private business. The fact is that in many instances, Federal Prison Industries routinely has in place long-term requirement contracts with qualified defense product manufacturers, most of whom are small businesses. That's why Federal Prison Industries can obtain materials so quickly and efficiently. The proven track record of these premier Federal Prison Industries electronics facilities to deliver quality product, competitively priced, under surge requirement conditions, with increased volume to their military customers, clearly proves how critical Federal Prison Industries is to our nation's defense preparedness and strength levels. The previous record of Federal Prison Industries in Operation Desert Storm and its current outstanding performance during the Afghanistan and Iraqi conflicts manifests the obvious fact that our nation's defense capability cannot and must not be significantly compromised by impairing the work of Federal Prison Industries.

But Federal Prison Industries isn't just about creating private sector jobs.

One day in June, 2001, I received a letter from a Federal inmate at Fairton, New Jersey. He told me he was to be released a month later after having spent the last 18 years of his life in state and federal custody. He attached his resume, and asked me for a job.

Two days after Dino Ricciardone was released from prison, we had him up to our factory, where he was interviewed by me and three of my managers. It was a tough interview – no tougher than we submit to any other employee, but just as tough, that's for sure.

Dino made the cut. He started working for me the next Monday, and he's been one of my most relied-upon workers ever since. He's never missed a day of work, and he's never been late. He integrated himself seamlessly into our organization and he's performed beyond all expectations.

If Dino could testify before you today, he'd tell you what he's told me many, many times: that everything he's been able to do since his release, every answer he gave that day during his interview, and every minute of good work as a productive employee that's followed, is due to the training he received in Federal Prison Industries.

The day he wrote me that letter, Dino already had 15 years of training – 15 years of working his way up from soldering to Lead Clerk for the Factory Manager. For the first time in his life, he'd learned what *responsibility* means: what it's like to show up, on time, and put in a full-day's work. He'd learned how to *work with others.* How to *take pride* in his work.

But more than that, he'd learned how to read blueprints and job specs. He'd learned how to estimate job costs and time requirements. And now, he's learned how to work with vendors and customers.

Today, this man who spent 18 years behind bars supervises 3 other employees in one of the most critical areas of our business.

He'll tell you what turned his life around: the day he found religion, and the day he found Federal Prison Industries.

Last year, I was the best man at his wedding. I'm proud to call him my friend, and I'm even prouder to introduce him to the Senate – gentlemen, please welcome my Product Manager, Demetrio Riccciardone – "Dino."

Mr. Chairman, Members of the Subcommittee, neither I nor Dino would be here if it weren't for Federal Prison Industries.

But there are thousands of others, who couldn't be here today: business owners like me, employees like Dino here, and our contractors and suppliers. Countless thousands of inmates who, over 70 years, have received job skills training because of Federal Prison Industries. Thousands, too, of corrections officers whose lives have been made easier because Federal Prison Industries has been so helpful in keeping the institutions safe. And thousands more, who likely would have been victims of crime were it not for FPI's 70-year track record in fighting crime.

I respectfully request that you very carefully consider any further attempts to curtail or diminish the status of Federal Prison Industries through legislation such as S. 346. I strongly oppose this legislation, as it would hurt small business, it would cost jobs, it would diminish the opportunities for former inmates like Dino here, it would jeopardize the safety of our penal institutions and, in my opinion, it would risk our nation's military preparedness.

Thank you for your time and consideration.

Andrew S. Linder, President

AFGE Congressional Testimony

STATEMENT BY

PHILIP W. GLOVER
PRESIDENT OF THE
COUNCIL OF PRISON LOCALS,
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

BEFORE

SUBCOMMITTEE ON FINANCIAL MANAGEMENT, THE BUDGET
AND INTERNATIONAL SECURITY,
SENATE GOVERNMENTAL AFFAIRS COMMITTEE

REGARDING

"MAKING FEDERAL PRISON INDUSTRIES
SUBJECT TO COMPETITIVE BIDDING"

ON

APRIL 7, 2004

American Federation of Government Employees, AFL-CIO
80 F Street, NW, Washington, D.C. 20001 ★ (202) 737-8700 ★ www.afge.org

Mr. Chairman, Senator Akaka and Members of the Subcommittee. My name is Philip W. Glover, and I am the elected President of the Council of Prison Locals. The Council represents over 26,000 employees in the federal Bureau of Prisons (BOP) system nationwide. We have 100 local unions that represent correctional officers, case workers, food service foremen, Federal Prison Industries (FPI) employees, and various others.

I would like to thank you for holding this oversight hearing on S. 346, a bill that would establish a government-wide policy requiring competition in federal agency procurements from FPI. It is an important topic for the safety and security of federal prisons. This proposed legislation would have real consequences for the men and women who work in federal prisons across the country.

The focus of today's hearing is on the permanent elimination of the FPI mandatory source preference for the entire federal government. This sounds pretty simple and not too controversial. However, this change, if enacted, would have a devastating impact on the federal prison system.

Before I discuss this change and its impact, I would like to discuss the FPI program and its benefits. I also would like to point out some misinformation that always seems to come out when Congress is dealing with this issue.

FPI was created in the 1930s during the Great Depression. Congress and the President decided to create such a prison industries program to help prison wardens and correctional officers manage inmates and to create some positive rehabilitation inside the federal prison system.

Through the years, as the prison inmate population rose, so did the FPI program. In the 1990s, federal prison inmate populations exploded because of the enactment of minimum mandatory sentencing, elimination of parole, and the "war on drugs." The FPI program expanded with it, causing certain private industry groups to become increasingly upset. Unfortunately, during the heated debates over FPI, the facts somehow get left out.

FPI receives a half of one percent of the entire federal procurement dollar. FPI's office furniture sales, which seem to drive most of the debate on this issue, totaled $144,330,467 in 2003 – which was 1.7% of the total U.S. domestic furniture market. A year earlier in 2002, FPI furniture sales totaled $214,287,013 or 2.4% of the total domestic furniture market. This decrease in furniture sales between 2002 and 2003 was due to Section 811 and Section 819 of the National Defense Authorization Acts of 2002 and 2003, respectively. As a result of these declining sales, we have had to close or reorganize 18 factories, idle 2,000 inmates, and eliminate 100 law enforcement FPI positions.

While we understand that citizens in the United States are experiencing uncertainty in the job market, our concern is the safety of federal prisons and the communities that we work in. Our job as correctional professionals is to keep the public safe from convicted felons, to run prisons in a humane way, and to try to give inmates a chance to become productive citizens.

FPI has been one of the best programs for all of these purposes, and the proposed legislation being discussed today will have a significant impact on it. I have added to my written testimony three memoranda from union leaders at three different federal prisons in Memphis, TN; Talladega, AL; and Bastrop, TX. All three prisons have experienced disruptions at one time or another. The memos I have provided state clearly that FPI inmates not only stayed out of the disruptions, they also actually helped to normalize the prisons once the disturbances were over. This is our key argument against any legislation that would eliminate the FPI program. The inmates who work in it are less prone to get into trouble and cause disruption at the facility.

In the bigger picture, many people have discussed the issue of "inmate jobs vs. private citizen jobs." This does not have to be perceived as a problem. Our union requested information from the BOP under our negotiated contract to examine the issue. This information demonstrates that FPI has many contracts with private companies, mainly small- and minority-owned businesses. We buy raw materials from textile companies in North Carolina. And the Teamsters would have less routes in small towns if our FPI factories weren't there because we have contracts with UPS and Roadway Express.

I have attached a complete FPI state-by-state contracting list to my written testimony. In Pennsylvania, for instance, we send $77,987,649 back into local communities through buying materials for production, shipping and related items. In New Jersey, we have contracts with private companies that total $19,536,436. In Michigan, we have contracts totaling $56,107,581. Mr. Chairman, in your state of Illinois, we have contracts with private businesses that are worth $33,226,516. These numbers all show that we are helping the economies in many states. We are not draining those states. This means that should the Senate approve S. 346, many of the private businesses we have contracts with will be hurt.

My overall concern with the proposed legislation is the lack of other job opportunities that it proposes. In addition, we are concerned that there is no phase-out of the mandatory source preference. The reason mandatory source has been effective is that it keeps work going to the inmates. Without that work, the inmates will become idle. As inmates become idle, they become bored and depressed – both of which increases the chance of inmate violence. That is why we must ask the Subcommittee to address the inmate job opportunity situation. We know that this proposed legislation – as did the DoD changes – will cause inmate idleness and eventually lead to more violence.

We believe if the Subcommittee adopts this proposed legislation without providing other types of inmate work opportunities – such as the repatriation of goods production and service work from overseas – that we will find ourselves in a very difficult situation. Section 1 of the bill eliminates mandatory source while Section 3 eliminates the service work we currently perform so even more FPI factories will close as a result.

We know that one of the S. 346's sections authorizes the Attorney General to exempt a federal agency from competition requirements and maintain FPI work opportunities prevent "circumstances" that could be expected to "significantly endanger" the safe administration of a federal prison. However, we believe this section will not be used because no prison wardens will want to state that they cannot run their prison safely.

Something we think the Subcommittee needs to be aware of is the actions taken by the FPI Board of Directors. In the last two years, they have modified many issues in FPI. The Board of Directors have passed resolutions to grant all waivers so federal agencies do not have to be locked into FPI. They have passed a 20% rule on mandatory source items where FPI must stay under 20% in the federal market. Additionally, they have passed other resolutions which have dealt with many of the causes of the furor over the FPI program.

Mr. Chairman, I again want to thank you for holding this hearing. For the reasons I have stated, we are opposed to this legislation as written and believe a more comprehensive bill must be drafted. Our health and safety, we believe, depends on it.

I would be happy to answer any questions the Subcommittee may have for me.

Date: 4-1-04

From: Les Stockwell, 1st VP Local 3731 (FCI Memphis)

Subject: 1995 Riot at FCI Memphis

To: Phil Glover, President CPL 33

The Riot at FCI Memphis in October of 1995 caused extensive damage.

The main instigators or agitators were inmates from Facilities and Food Service. They attempted to enlist the support of inmates from around the compound with somewhat limited success.

At one point they approached the main entrance of Unicor and demanded that we open the doors and let all the inmates out. The inmates in Unicor at the time were happy to stay put and not participate. We informed the radical group of inmates at the door that we were not going to open Unicor and that the inmates inside did not want to participate. After some very intense exchanges the group left the front entrance of Unicor.

Later that afternoon, the same radical group became violent and began destroying government property. They also attacked us in front of one of the housing units. Moments after attacking us they went to the rear of Unicor and began breaking open the "fire escape" door. The inmates on the inside of Unicor helped fight them off and yelled they did not want to participate or destroy Unicor. As a result, the radical group abandoned the idea of destroying Unicor. They turned their attention to other areas of the institution and continued their rampage.

The inmates employed by Unicor had jobs important enough to them that they did not want to destroy a "good thing".

That particular day in 1995 was very, very long and trying. It took a large toll on a lot of people not to mention the physical damage to the facility (Approx. 5 million dollars). The "program" of Unicor was instrumental in preventing more extensive damage.

American Federation of
Government Employees
Council Prison Local #33
LOCAL 3844
Talladega, Al.

March 30, 2004

Phil Glover, CPL 33, President
720 Parkview Drive
Johnstown, PA 15905

Dear Phil,

I forward this letter in an effort to shed light on the nature of inmate(s) assigned to Unicor factories within our prison.

In October of 1995 there was a riot here at FCI Talladega, it was a very intense time and one I will not soon forget. Inmates were going to and from work areas, destroying as much property as possible. What I want to stress to you is, unicor inmates were instrumental in discouraging events of the riot. Additionally, unicor inmates discouraged others from participating in disruptive behavior and encouraged the restoration of order and control.

In particular, I can speak of an example pertaining to Unicor inmate Wilson #02756-017. This inmate played a significant role during the early stages of the aftermath from the riot of 1995 at F.C.I. Talladega, Alabama. This inmate along with others resisted the peer pressure from disruptive inmates and began to aide staff in restoring the institution following the destructive riotous behavior days earlier. These acts by inmate Wilson were important enough for the former Warden (J. L. Sivley) to write a letter of appreciation. I have attached that letter for your review.

Unicor inmates are attempting to learn the way of holding onto a job and work like the average law-abiding citizen. Unicor provides such a opportunity to learn by providing meaningful, productive work.

Sincerely,

Phelis Porter
Local President
FCI Talladega

UNITED STATES GOVERNMENT

M E M O R A N D U M

FEDERAL CORRECTIONAL INSTITUTION

TALLADEGA, ALABAMA 35160

DATE: June 26, 1996

REPLY TO
ATTN OF: J. L. Sivley, Warden

SUBJECT: Letter of Appreciation
Inmate Wilson, Otis Reg. No. 02756-017

TO: All Concerned

I would like to take this opportunity to express my sincere thanks for your participation in the inmate work cadre following the disturbance that took place at FCI Talladega, Alabama on October 19, 1995.

The clean-up task proved to be a monumental undertaking and would have been an even greater burden had it not been for the inmate work cadre. You volunteered to assist with the clean-up which included picking up and removing debris by the ton. In doing so, you resisted peer pressure from other inmates who encouraged others not to assist in the rebuilding process. Your willingness to assist staff in returning the institution to a semblance of it's former self is a credit to you.

Once again, I would like to extend my appreciation for a job well done.

AFGE LOCAL 3828
"EQUALITY IS THE GOAL"
F.C.I. Bastrop, Texas 78602

Date: April 1, 2004

Reply to Attn of: J. Ormsby, President, AFGE Local 3828

Subject: Disturbance

To: Phil Glover

On September 1, 2003 there was a disturbance in Unit two of F.C.I. Bastrop. A total of twenty eight inmates were locked up. Thirteen inmates were released back to the compound. Fifteen inmates were given Disciplinary actions. Out of the fifteen inmates two were UNICOR inmates. Unit two houses 335 inmates with approximately 80 inmates working in UNICOR. This adds up to about 25% of the unit.

I had one inmate assigned to my detail that was initially locked up, but was released. There were several memos stating that he was trying to break the disturbance up and got caught in the lock ups. He was not disciplined.

UNICOR PROCUREMENT BRANCH
AWARDS REGISTER
ACTIVE CONTRACTS BY STATE
Effective: 04/05/04

STATE: AL

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
1PI-C-4096-99	SHIN ENTERPRISES INC	AL	BROWN	HWS2693	$213,080.00	SB	05/07/99	05/06/04
46_1123	BANNER MACHINE	AL	STONE	HWS1496	$39,690.00	SB	03/06/03	03/05/06
46_1482	TEUTECH, LLC.	AL	BROWN	EHR9101/9102	$246,500.00	SB	03/30/04	07/30/04
46_1432	VALENDRAWERS INC.	AL	MERRION	DRAWER BOXES	$94,000.00	SB	02/06/04	06/30/04
46_525	BANNER MACHINE	AL	ODOM	RADIO MOUNTS	$173,550.00	SB	09/14/01	09/13/06
46_266	RK ASSOCIATES	AL	JOHNSON	SALES SERVICE	$500,000.00	SB	01/25/01	01/25/06
46_725	BRACKIN WHOLESALE	AL	CAVANAUGH	GLUE	$301,785.00	SB	02/26/02	02/26/07
1PI-C-4482-00	BANNER MACHINE	AL	ODOM	EHR9101/9102	$1,661,400.00	SB	02/10/00	02/09/05
46_857	BANNER MACHINE	AL	ODOM	HWS1466	$236,742.00	SB	06/20/02	06/19/07
46_678	POWELL ELECTRONICS	AL	BROWN	ADP1687	$73,863.00	SB	02/01/02	02/01/05
46_1396	SEI MANUFACTURING	AL	BROWN	HWS1067	$500,800.00	SB	01/16/04	01/15/09
46_905	BANNER MACHINE	AL	ODOM	HWS2425(22)	$1,024,335.00	SB	07/31/02	07/30/07
TOTAL ACTIVE CONTRACTS:	***12***			***TOTAL GROUP***	***$5,065,745.00***			

UNICOR PROCUREMENT BRANCH
AWARDS REGISTER
ACTIVE CONTRACTS BY STATE

Effective: 04/05/04

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: AR								
46_429	GBC INC.	AR	YOUNG	SHOE DISTRIB.	$436,065.75	SB	06/12/01	06/12/06
46_964	EATON-MOERY ENVIRO.	AR	CAVANAUGH	TRASH SERVICE	$100,880.00	LB	10/09/02	10/08/04
46-87	MCGRAW'S CUSTOM CONS	AR	CAVANAUGH	PRB0113	$360,200.00	LB	08/10/00	06/30/05
46_1330	RICHARDSON WASTE, INC.	AR	YOUNG	TRASH REMOVAL	$140,504.00	SB	11/03/03	11/03/06
1PI-C-4256-99	SIGMA SUPPLY	AR	ROBINSON, D.	PAD/PKG0151	$780,000.00	SB	08/13/99	04/30/04
46_1138	MAIL CONTRACTORS	AR	CALABRO	TRANSPORTATIO	$625,404.00	LB	03/14/03	03/14/06
TOTAL ACTIVE CONTRACTS:	***6***			***TOTAL GROUP***	***$2,443,053.75***			

UNICOR PROCUREMENT BRANCH
AWARDS REGISTER
ACTIVE CONTRACTS BY STATE
Effective: 04/05/04

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: AZ								
46_641	RNB ENTERPRISES	AZ	STONE	PCC0135	$420,000.00	SB	12/07/01	12/07/04
46_1308	TELEVERDE	AZ	MERRION	COMPUTER	$470,400.00	SB	09/17/03	10/01/07
46_994	LYNTEC INDUSTRIES	AZ	STONE	CPR/DIO/FIL	$1,548,324.00	SB	11/13/02	11/12/07
46_1383	LYNTEC INDUSTRIES	AZ	BROWN	CTR0663	$330,960.00	SB	01/14/04	01/13/09
46_998	LYNTEC INDUSTRIES	AZ	BROWN	RLY0100	$313,800.00	SB	11/08/02	11/08/07
TOTAL ACTIVE CONTRACTS:	*5*			*TOTAL GROUP*	*$3,083,484.00*			

UNICOR PROCUREMENT BRANCH
AWARDS REGISTER
ACTIVE CONTRACTS BY STATE
Effective: 04/05/04

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: CA								
46_556	SACRAMENTO WINDOW	CA	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
46_1345	ACCURIDE INTERNAT.	CA	ROBINSON, D.	DRAWER SLIDES	$4,311,743.36		11/14/03	05/30/04
46_971	MARKRIST ENGINEERING	CA	ODOM	HWS1266	$370,116.00	SB	10/17/02	10/17/07
46_1453	ELECTRO-ADAPTER	CA	ODOM	ADP3304	$1,908,000.00	SB	02/26/04	02/25/09
46_785	BLAKE WIRE & CABLE	CA	STONE	CBL1367	$203,750.00	SB	04/16/02	04/15/07
46_987	R. DAVIS EDM	CA	STONE	EHR9364/9365	$700,000.00	SB	11/04/02	11/03/07
46_369	NWP, INC.	CA	BROWN	CTR7101	$690,000.00	SB	04/13/01	04/13/04
46_1394	THERMAL ELECTRONICS	CA	STONE	CAP0258	$494,200.00	SB	01/15/04	01/14/09
1PI-C-4183-99	TOMAHAWK	CA	ROBINSON, R.	DATA SERVICES	$40,000,000.00	LB	06/30/99	08/30/09
46_1394	THERMAL ELECTRONICS	CA	STONE	CNT0686	$1,103,000.00	SB	01/15/04	01/14/09
46_1400	ITT CANNON	CA	STONE	CNT6365	$892,500.00	LB	01/23/04	01/22/09
46_921	TITAN HARDWARE	CA	CAVANAUGH	HARDWARE	$770,000.00	SB	08/26/02	08/22/07
46_1079	CHIP TECH	CA	ODOM	CPR0226/0254	$715,045.00	SB	01/24/03	01/23/08
46_1078	AMERICAN TRANS-COIL	CA	ODOM	CPR0546/RES1009	$842,950.00	SB	01/24/03	01/23/08
1PI-C-4088-99	LODI METAL TECH, INC	CA	CALABRO	PALLET RACK	$2,483,056.00	SB	07/16/99	07/16/06
46_751	PANELITE ENGINEERING	CA	ODOM	ELF2314/LNS0003	$120,400.00	SB	03/12/02	03/07/07
46_292	BLAKE WIRE & CABLE	CA	BROWN	CBL6884	$159,000.00	SB	02/23/01	02/23/06
46_408	NWP, INC.	CA	ODOM	SWH0089/0277	$402,750.00	SB	05/17/01	05/17/04
46_730	D3	CA	MCPHERSON	FORKLIFT PARTS	$250,000.00	SB	02/26/02	02/25/07
46_366	THERMAL ELECTRONICS	CA	BROWN	CNT6365/0686	$176,600.00	SB	04/10/01	04/09/06
46_458	PHILATRON INTERNAT.	CA	STONE	MIL 3432	$3,728,392.00	SB	07/18/01	07/23/06
46_675	DELPHI CONNECTION	CA	BROWN	CTR12439	$196,014.00	SB	02/01/02	02/01/05
46_1159	GLENAIR, INC.	CA	STONE	CND0006(14)	$300,110.00	LB	04/01/03	03/31/05

UNICOR PROCUREMENT BRANCH
AWARDS REGISTER
ACTIVE CONTRACTS BY STATE
Effective: 04/05/04

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_651	RICHARD MORCK	CA	MCPHERSON	MAT. HANDLER	$28,080.00	SB	12/12/01	12/12/05
46_1261	SOUTHERN ARMATURE	CA	MCPHERSON	BEARINGS &	$155,729.11	SB	07/17/03	07/17/07
46_312	BLAKE WIRE & CABLE	CA	STONE	CTR17526	$5,700.00	SB	03/02/01	03/05/05
46_723	CONNECTEC	CA	STONE	CTR10852	$247,500.00	SB	02/26/02	02/25/07
46_1127	WW&LJ GATEWAYS, LTD	CA	JOHNSON	LEASE	$193,215.00	SB	06/20/03	03/31/08
46_1415	MONOGRAM SYSTEMS	CA	MCPHERSON	AWH5058/8059	$202,810.00	LB	04/18/03	04/17/05
46_516	MARKRIST ENGINEERING	CA	STONE	CPR0426	$606,750.00	SB	09/07/01	09/06/06
46_279	GLENAIR, INC.	CA	STONE	ADP4160/4161	$539,200.00	LB	03/02/01	03/02/05
1PI-C-4095-99	GLENAIR, INC.	CA	BROWN	CDA-0043	$248,320.00	LB	05/07/99	05/06/04
46_891	RIGHT FIND, INC.	CA	ODOM	ADP2957/CTR9974	$243,000.00	SB	07/18/02	07/17/07
46_814	DEUTSCH	CA	STONE	MIL C81511	$5,000,000.00	LB	05/24/02	05/24/07
1PI-C-4048-99	KLUNE INDUSTRIES INC	CA	BROWN	BOX-0014	$3,954,760.00	SB	04/06/99	04/06/04
46_542	CONTRACT DECOR, INC.	CA	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
46_625	BLAKE WIRE & CABLE	CA	ODOM	CBL0124	$220,000.00	SB	11/13/01	11/12/06
46_1017	RIGHT FIND, INC.	CA	STONE	SATELLITE PARTS	$258,169.00	SB	12/23/02	12/19/07
46_858	CONNECTEC	CA	ODOM	HWS1583	$293,760.00	SB	06/20/02	06/19/07
46_1104	MASON ELECTRIC CO.	CA	BROWN	ADP8287	$384,900.00	LB	02/12/03	02/11/08
46_889	JACON FASTENERS	CA	BROWN	EHR9018	$339,600.00	SB	07/22/02	12/31/05
46_1305	TYCO ELECTRONICS	CA	BROWN	SLV5580	$144,100.00	SB	09/30/03	09/29/08
46_568	JOSLYN SUNBANK	CA	STONE	CDA0084	$72,480.00	SB	10/03/01	10/02/06
1PI-C-4288-99	THERMAL ELECTRONICS	CA	ODOM	MIL 24308	$26,500.00	LB	09/15/99	09/15/04
46_585	NWP, INC.	CA	ODOM	CTR8489	$499,900.00	SB	10/11/01	10/10/06
1PI-C-4413-00	REPUBLIC JUNCTION	CA	MCPHERSON	WIRES/CONNECT	$45,224.31	SB/W	12/06/99	12/03/04
1PI-C-4484-00	ALMACK LINERS	CA	RHINEHART	PFU TRUNKS	$1,903,188.00	SB	02/15/00	02/14/05
46_281	MOBILE STORAGE GRP.	CA	ROBINSON, D.	TRAILER LEASE	$305,750.00	SB	02/08/01	02/08/06

UNICOR PROCUREMENT BRANCH
AWARDS REGISTER
ACTIVE CONTRACTS BY STATE
Effective: 04/05/04

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_534	CONNECTEC	CA	ODOM	CNT0055/0095	$58,643.00	SB	09/19/01	09/18/06
46_1473	RIGHT FIND, INC.	CA	ODOM	CTR5154	$47,000.00	SB	03/25/04	03/24/09
46_1042	J-TECH	CA	BROWN	CTR1556	$1,102,398.00	SB	12/17/02	12/15/07
46_1074	WIGGINS FORKLIFT	CA	MCPHERSON	AHW1029/AHW9959	$250,000.00	SB	01/21/03	01/21/05
46_1046	MARKRIST ENGINEERING	CA	STONE	SATELLITE PARTS	$13,389.00	SB	12/23/02	12/19/07
46_720	BAJA FABRICATION	CA	MCPHERSON	SUSPENSION	$3,500,000.00	SB	02/19/02	02/18/05
46_1026	QUALITY FELT CO.	CA	LEE	BATTING	$4,827,848.00	SB	11/27/02	11/26/05
46_1319	ITT CANNON	CA	ODOM	CTR0075	$351,795.00	LB	10/08/03	10/08/08
46_636	BAY DRAPERY	CA	BARNES	VARIOUS ITEMS	$183,147.00	SB	11/29/01	11/28/04
46_573	SPEC-BUILT SYSTEMS	CA	LEE	TPE0333/TAB0201	$1,147,500.00	SB	10/09/01	10/09/04
1PI-C-4585-00	ABBOTT TECHNOLOGIES	CA	ODOM	CHK0005	$83,895.00	SB	04/19/00	04/19/05
1PI-C-4594-00	JACON FASTENERS	CA	ODOM	EHR9018	$163,200.00	SB	04/20/00	04/20/04
46_818	DEUTSCH	CA	ODOM	QPL COMP	$60,050,000.00	LB	05/30/02	05/29/07
46_887	ERNEST PAPER	CA	BROWN	BAG0236	$45,790.00	SB	07/19/02	07/18/07
46_1323	TYCO ELECTRONICS	CA	STONE	BOT/INS	$1,273,100.00	LB	10/17/03	10/16/08
46_116	BURKE INDUSTRIES	CA	ODOM	RUB0098	$216,000.00	LB	07/12/00	07/11/05
46_1016	GLENAIR, INC.	CA	STONE	ADP1686(85049)	$224,280.00	LB	11/21/02	11/20/07
1PI-C-3780-98	TITAN HARDWARE	CA	ROBINSON, D.	BOLTS	$147,284.98	SB	10/13/98	04/30/04
46_284	CROWN CONNECTOR	CA	STONE	BSE0091	$300,000.00	SB	02/09/01	02/09/06
1PI-C-4054-99	CAST SALES	CA	CAVANAUGH	HARDWARE	$48,100.00	SB	04/05/99	04/05/04
1PI-C-4352-00	MARKRIST ENGINEERING	CA	STONE	CTR16239	$115,368.50	SB	10/15/99	10/13/04
46_632	LORENZ, INC.	CA	STONE	SLV0280	$115,000.00	SB	11/16/01	11/16/06
1PI-C-4351-00	CONNECTEC	CA	STONE	CTR16238	$174,460.00	SB	10/15/99	10/13/04
46_810	NWP, INC.	CA	STONE	ADP1315/8082	$189,970.00	SB	05/13/02	05/13/07
46_759	BRANTNER & ASSOCIATES	CA	ODOM	CTR20805/CAP2099	$825,000.00	SB	03/22/02	03/21/07

UNICOR PROCUREMENT BRANCH
AWARDS REGISTER
ACTIVE CONTRACTS BY STATE
Effective: 04/05/04

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_1435	TYCO ELECTRONICS	CA	BROWN	FRL0359	$209,006.00	LB	02/10/04	02/09/09
46_1100	U.S. POSTAL SERVICE	CA	YOUNG	CARTRIDGE	$421,250.00	GOV	02/10/03	02/09/05
46_468	TYCO ELECTRONICS	CA	BROWN	MIL81044/27500	$857,673.75	LB	07/02/01	07/02/06
46_1428	GLENAIR, INC.	CA	STONE	SLV3581	$2,430,000.00	LB	02/05/04	02/04/09
46_1435	TYCO ELECTRONICS	CA	BROWN	FRL0359	$209,006.00	LB	02/10/04	02/09/09
46_1158	CROWN CONNECTOR	CA	BROWN	ADP0310	$1,000,000.00	SB	04/02/03	05/25/08
46_838	ELECTRO-ADAPTER	CA	BROWN	ADP6645/6647	$692,600.00	SB	06/06/02	06/06/07
46_757	CALIFORNIA ELECTRIC	CA	ODOM	PNL0448	$6,141,000.00	LB	03/15/02	03/14/07
46_1007	NWP, INC.	CA	STONE	CIB0127	$293,100.00	SB	11/13/02	11/12/07
46_1469	PANELITE ENGINEERING	CA	ODOM	ELF2314	$309,500.00	SB	03/25/04	03/24/09
46_1171	PANELITE	CA	STONE	EHR0609	$604,000.00	SB	04/10/03	04/09/08
46_602	VIP RUBBER COMPANY	CA	ODOM	RUB0034	$135,273.00	SB	10/22/01	10/21/06
46_1411	G/L VENEER COMPANY	CA	CAVANAUGH	PANELS/TOPS	$10,604,510.00	SB	02/02/04	02/03/09
46_1435	TYCO ELECTRONICS	CA	BROWN	FRL0359	$209,006.00	LB	02/10/04	02/09/09
TOTAL ACTIVE CONTRACTS:	***87***			***TOTAL GROUP***	***$176,305,355.01***			

UNICOR PROCUREMENT BRANCH
AWARDS REGISTER
ACTIVE CONTRACTS BY STATE
Effective: 04/05/04

STATE: CAN

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
1PI-C-4593-00	TEUTECH INDUSTRIES	CAN	ODOM	BKT0139/0140	$88,000.00	SB	04/20/00	04/20/04
46_1125	TEUTECH INDUSTRIES	CAN	STONE	HWS1878	$389,900.00	SB	03/06/03	03/05/08
46_951	TEUTECH INDUSTRIES	CAN	ODOM	BOX0671/0296	$855,000.00	SB	09/30/02	09/29/07
46_956	TEUTECH INDUSTRIES	CAN	ODOM	CIB0068/0060	$6,945,000.00	SB	10/03/02	10/02/07
46_856	TEUTECH INDUSTRIES	CAN	ODOM	HWS1570	$489,600.00	SB	06/20/02	06/19/07
46_1002	TEUTECH INDUSTRIES	CAN	STONE	IST/BKT	$111,900.00	SB	11/14/02	11/11/07
46_1061	LIFTKING INDUSTRIES	CAN	MCPHERSON	GKT6103/SEA6715	$250,000.00	SB	01/11/03	01/06/08
46_995	TEUTECH INDUSTRIES	CAN	BROWN	MNT0062/PLT1146	$373,800.00	SB	11/08/02	11/08/07
46_861	TEUTECH INDUSTRIES	CAN	STONE	HWS6248	$1,680,000.00	SB	07/15/02	09/29/07
46_1149	NIGHTINGALE CORP.	CAN	CAVANAUGH	BUDGET SEATING	$9,425,000.00	FGN	03/20/03	03/20/08
46_758	TEUTECH INDUSTRIES	CAN	BROWN	BOX0723/0724	$2,215,000.00	SB	03/20/02	03/20/07
46_1153	TEUTECH INDUSTRIES	CAN	STONE	SPC0087/0088	$427,950.00	SB	03/26/03	03/25/08
46_1479	TEUTECH INDUSTRIES	CAN	STONE	CLP0174	$243,750.00	SB	03/25/04	03/24/09
46_1225	TEUTECH INDUSTRIES	CAN	STONE	EHR9169/HSK0026	$704,000.00	SB	05/28/03	06/30/08
46-74	NIGHTINGALE CORP.	CAN	ROBINSON, D.	ERGO CHAIRS	$42,000,000.00	FGN	08/31/98	12/03/08
46_523	TEUTECH INDUSTRIES	CAN	STONE	BSE0112	$2,744,850.00	SB	09/18/01	09/06/06
46_1421	TEUTECH INDUSTRIES	CAN	STONE	REL0015	$500,000.00	SB	02/02/04	02/01/06
46_1183	LIFTKING INDUSTRIES	CAN	MCPHERSON	GKT6103/SEA6715	$250,000.00	SB	01/11/03	01/06/08
46_1316	TEUTECH INDUSTRIES	CAN	BROWN	HWS6545	$343,115.00		10/08/03	10/07/08
TOTAL ACTIVE CONTRACTS:	***19***			***TOTAL GROUP***	***$70,036,865.00***			

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: CO								
46_1320	JORTEX, INC.	CO	BARNES	MATTRESS TAPE	$3,223,350.00	SB	10/10/03	10/09/06
46_644	CPSI	CO	MERRION	CHS0532	$64,375.00	LB	12/05/01	12/04/06
1PI-C-4588-00	WESTERN UPHOLSTERY	CO	CAVANAUGH	UPHOL.	$120,387.94	SB	04/26/00	04/26/05
46_1386	JORTEX, INC.	CO	RHINEHART	WAISTBAND/ZIPP	$635,389.40	SB	01/14/04	01/13/07
46_1366	HIGH COUNTRY CONTAINER	CO	CAVANAUGH	PACKAGING	$7,938.50		12/22/03	04/30/04
46_1367	UNISOURCE WORLDWIDE	CO	CAVANAUGH	PACKAGING	$205,462.91		12/22/03	04/30/04
1PI-C-4587-00	KEYSTON BROS.	CO	CAVANAUGH	UPHOL.	$25,603.00	LB	04/26/00	04/26/05
46_147	RINEHART GLOVE, LLC.	CO	RHINEHART	ROYALTY FEES	$281,520.00	SB	09/16/97	09/15/05
TOTAL ACTIVE CONTRACTS:	***8***			***TOTAL GROUP***	***$4,564,026.75***			

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STATE: CT

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_820	COUGAR ELECTRONICS	CT	MCPHERSON	SEMICONDUCTO	$240,084.00	SBVT	05/24/02	05/24/06
46_900	INDUSTRIAL INGREDIEN	CT	LEE	STARCH	$84,000.00	SB	08/12/02	08/11/04
1PI-C-4398-00	NEXUS INC.	CT	STONE	CTR3799	$302,100.00	SB	11/18/99	11/17/04
46_1461	NEXUS INC.	CT	ODOM	CTR2751	$722,300.00	SB	03/14/04	03/14/09
46_205	UFP TECHNOLOGIES	CT	ODOM	IST9999	$422,880.00	LB	10/18/00	10/18/05
46_560	VICTOR ROME CO.	CT	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
46_569	THOMAS W. RAFFERTY	CT	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
46_202	ITW WATERBURY BUCKLE	CT	RHINEHART	PFU TRUNKS	$114,200.00	LB	02/11/00	02/10/05
46_1448	ITW WATERBURY BUCKLE	CT	RHINEHART	KEEPERS	$1,366,780.00	SB	03/01/04	02/28/06
46_1461	NEXUS INC.	CT	ODOM	CTR1124	$722,300.00	SB	03/14/04	03/14/09
46_1231	NEXUS INC.	CT	STONE	CTR4756/11099	$117,600.00	SB	06/09/03	06/08/08
46_1111	NEXUS INC.	CT	BROWN	CTR19245	$939,000.00	SB	02/25/03	02/24/08
46_635	NEXUS INC.	CT	STONE	CTR12116	$424,000.00	SB	11/21/01	11/26/06
TOTAL ACTIVE CONTRACTS:	***13***			***TOTAL GROUP***	***$5,455,244.00***			

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: DC								
1PI-C-4058-99	IDEAL ELECTRIC CO.	DC	ROBINSON, D.	LOCKS	$246,480.00	SDB	04/07/99	04/06/04
46-1285	WINBOURNE & COSTAS, INC	DC	BARNES	TECHNICAL	$20,000.00	SVOB	08/13/03	08/12/05
46_958	MAURICE ELECTRICAL	DC	STONE	CAP0106/0779	$129,850.00	SB	10/08/02	10/07/07
46_484	MAURICE ELECTRICAL	DC	BROWN	CTR3442/17675	$766,896.00	SB	08/09/01	08/09/06
46-40	TRAMMELL CROW	DC	MERRION	PROPERTY MGMT	$3,391,680.00	LB	01/13/00	01/12/05
1PI-C-4129-99	MAURICE ELECTRICAL	DC	BROWN	LMP0113	$147,680.00	SB	05/21/99	05/21/04
46_790	MAURICE ELECTRICAL	DC	STONE	ELF0162/2321	$944,400.00	SB	04/22/02	03/22/07
46_1434	BELL ARCHITECT	DC	HUOTARI	A/E SVCS.	$3,000,000.00	HUB	02/06/04	02/05/09
TOTAL ACTIVE CONTRACTS:	*8*			*TOTAL GROUP*	*$8,646,986.00*			

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STATE: FL

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_1474	DEPENDABLE COMPONENT	FL	ODOM	CIB0018	$2,308,500.00	SB	03/25/04	03/24/09
46_1096	CABLE USA	FL	BROWN	CBL5786	$1,800,000.00	LB	02/11/03	02/10/08
46_628	IDEAL FASTENERS	FL	RHINEHART	ZIPPERS	$64,056.00	SB	11/15/01	05/15/04
46_1390	UNIVERSAL SEWING	FL	RHINEHART	VARIOUS	$147,489.00	SB	01/15/04	04/15/04
46_1457	TRIDENT IND. PRODUCT	FL	RHINEHART	FABRIC NYLON	$471,888.00	SB	03/04/04	03/04/06
46_1187	INDUSTRIAL PKG.	FL	BROWN	PAC6392	$93,750.00	SB	05/02/03	05/02/08
46_833	MILLER BEARINGS, INC.	FL	MCPHERSON	BALL BEARINGS,	$31,680.00	SB/W	05/31/02	05/30/06
46_760	INDUSTRIAL PKG.	FL	ROBINSON, D.	TWO SIDED TAPE	$1,501,992.80	SB	03/18/02	03/18/07
46_1118	RJ WIRE & CABLE	FL	BROWN	WIR3601	$450,000.00	SB	02/26/03	02/25/08
46_1263	RJ WIRE & CABLE	FL	ODOM	CBL5341	$491,000.00	SB	07/22/03	07/21/08
46_775	DEPENDABLE COMPONENT	FL	ODOM	CIB0028	$890,000.00	SB	04/05/02	04/04/07
46_378	ERIN ELECTRICAL	FL	ODOM	SWH0277	$401,220.00	SB	04/20/01	04/20/04
46_997	UNIVERSAL SEMICONDU.	FL	BROWN	TRS1516/1519	$521,280.00	SB	11/08/02	11/08/07
46_996	UNIVERSAL SEMICONDU.	FL	STONE	CIB,CPR,DIO	$153,960.00	SB	11/13/02	11/12/07
46_1181	ABLE UNLIMITED INC.	FL	RHINEHART	COTTON	$427,275.00	SBWO	04/22/03	05/04/06
1PI-C-4506-00	MADICO, INC.	FL	MCPHERSON	TNT0009	$451,200.00	SB	02/16/00	02/16/05
46_229	KNIGHT STORAGE	FL	JOHNSON	LEASE TRAILERS	$109,200.00	WOSB	12/18/00	11/30/08
46_1242	TECHNICAL SPECIALTIES	FL	BROWN	SLV3204	$66,712.60	SB	06/23/03	06/12/06
46_1287	HOSE-MCCANN TELEPHONE	FL	ODOM	MKR1317 (18)	$2,025,000.00	WOSB	08/25/03	08/24/08
46_937	CABLE USA	FL	STONE	CBL5784/5785	$1,491,375.00	SB	09/17/02	09/17/07
46_1365	RADIOTRONICS, INC.	FL	MCPHERSON	K9 HEAT ALARM	$13,475.00	SB	12/19/03	12/18/08
46_1080	G.T.I. INDUSTRIES	FL	CARLOCK	BOXES/KRAFT	$611,231.51	SB	01/30/03	01/29/05
46_1341	TECHNICAL SPECIALTIES	FL	BROWN	SLV3204	$780,000.00	SB	11/20/03	11/19/08

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1PI-C-4210-99	OCTOFOIL GROUP	FL	CALABRO	HARDWARE	$14,000.00	SB	07/13/99	07/13/04
46_912	IDEAL FASTENERS	FL	CARLOCK	FASTENERS	$288,010.00	SB	08/17/02	09/16/04
46_674	ONYX WASTE SERVICES	FL	CAVANAUGH	TRASH REMOVAL	$1,458,100.00	SB	01/14/02	01/13/07
46_978	POINT BLANK BODY ARMOR	FL	CARLOCK	TRUST GRD KIT	$3,080,000.00	SB	11/04/02	11/03/05
46_819	NORTHGATE LIMITED	FL	YOUNG	ADMIN KITS	$556,250.00	WOSB	05/24/02	05/24/05
1PI-C-4584-00	SOLITRON DEVICES	FL	ODOM	CTR13829	$233,100.00	SB	04/19/00	04/19/05
46_914	MILLER BEARINGS, INC.	FL	MCPHERSON	BALL BEARINGS	$109,908.00	SB/W	08/08/02	08/07/06
46_538	CABLE USA	FL	ODOM	MIL22759	$384,700.00	LB	09/19/01	09/18/06

TOTAL ACTIVE CONTRACTS: ***31*** ***TOTAL GROUP*** ***$21,426,352.91***

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STATE: GA

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_1392	CUTTING SEWING ROOM	GA	RHINEHART	VARIOUS	$5,865.00	SB	01/15/04	04/15/04
1PI-C-3083-97	INTERNATIONAL STORAG	GA	CALABRO	MODUL. SHEL./BV	$2,500,000.00	LB	04/03/97	04/03/07
46_282	AUDIO LAB	GA	STONE	SPK0011	$477,000.00	SB	02/09/01	02/09/06
46_1257	ELECTRICAL INSUL.	GA	MCPHERSON	MAGNETIC WIRE	$175,519.44	LB	07/11/03	07/11/07
46_1433	GEORGIA PACIFIC	GA	MERRION	ASH PLYWOOD	$123,851.39	SB	02/06/04	06/30/04
46_1266	SOUTHERN MILLS, INC.	GA	LEE	NOMEX FABRIC	$2,568,380.00	LG	07/30/03	07/29/06
46_1006	ATLANTA HARDWOOD	GA	CALABRO	LBR0584	$636,500.00	SB	11/12/02	11/11/05
46_554	EMPIRE DRAPERY CO.	GA	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
46_972	NORTH AMERICAN PRODUCTS	GA	CAVANAUGH	TOOL SHARPENING	$437,465.00	LB	10/18/02	10/17/07
46_1086	AUDIO LAB	GA	BROWN	SPK0011	$1,272,000.00	SB	01/31/03	01/30/08
TOTAL ACTIVE CONTRACTS:	***10***			***TOTAL GROUP***	***$8,196,580.83***			

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: IA								
46_1060	WEBER & SONS BUTTON CO	IA	RHINEHART	BUTTONS	$159,342.00	SB	01/10/03	01/13/06
TOTAL ACTIVE CONTRACTS:	***1***			***TOTAL GROUP***	***$159,342.00***			

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STATE: IL

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
1PI-C-3841-99	R. S. OWENS & CO.	IL	YOUNG	PLAQUES/TROPH	$5,000,000.00	LB	10/20/98	10/20/08
1PI-C-4168-99	ART.COM	IL	MERRION	WALL ART SVC	$100,000.00	LB	08/24/99	08/24/04
46_1238	LAKE PAPERBOARD	IL	YOUNG	PBD0383	$78,825.00	SB	06/13/03	06/19/04
46_188	DANIEL WOODHEAD CO.	IL	BROWN	HSG1022 (8)	$486,630.00	SB	10/27/00	10/26/04
46_1307	GATEWAY CABLE CO.	IL	STONE	CTR4570/4863	$4,308,500.00	SB	09/30/03	09/29/08
46_278	ELECSYS INCORPORATED	IL	STONE	CTR17526	$317,320.00	SB	03/02/01	03/02/05
46_131	FORMICA CORP.	IL	ROBINSON, D.	LAMINATE	$12,843,818.72	LB	07/26/00	07/25/05
46_482	AMEROCK CORP	IL	CALABRO	HINGES	$101,180.00	LB	07/31/01	07/31/04
46_823	TIMBERLINE SUPPLY	IL	CAVANAUGH	LOCKS	$160,307.50	SB	05/24/02	05/24/04
46_1401	NACCO MATERIALS	IL	MCPHERSON	AKT1282/SPR6318	$250,000.00	LB	01/14/03	01/14/05
46_895	FREEDMAN SEATING CO.	IL	MCPHERSON	AUT2135/AUTO0038	$90,140.00	SB	06/11/02	06/11/06
46_195	DAY LEATHER CORP.	IL	RHINEHART	LEA0021	$272,000.00	SB	11/16/00	11/16/05
46_428	DAY LEATHER CORP.	IL	RHINEHART	LEA0058	$566,800.00	SB	06/19/01	06/18/04
46_1417	COLEMAN CABLE SYS.	IL	STONE	CBL0299	$125,000.00	LB	02/05/04	02/04/09
46_315	AMERIMAC, LTD.	IL	MERRION	SVC000A	$5,000,000.00	SB	03/13/01	03/13/06
46_548	ADM INTERNATIONAL	IL	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
46_504	PACTIV CORP.	IL	CAVANAUGH	PACKAGING	$214,500.00	SB	08/24/01	08/24/04
46_1108	ADVANCED COMMODITIES	IL	ODOM	BOX0117	$386,100.00	SDB	02/14/03	02/13/08
1PI-C-4101-99	DANIEL WOODHEAD CO.	IL	ODOM	GRD-0004	$89,670.00	LB	05/13/99	05/13/04
46_357	CUSTOM ACCENTS	IL	ROBINSON, D.	HARDWARE	$303,800.00	LB	04/06/01	04/06/04
46_1135	SANDPAPER INC. OF IL	IL	CAVANAUGH	ABRASIVES	$333,310.00	SB	03/13/03	03/12/06
1PI-C-4206-99	LIBERTY FASTENER CO.	IL	CALABRO	HARDWARE	$18,505.60	SB	07/13/99	07/13/04
46_1177	CUSTOM ACCENTS	IL	CAVANAUGH	HARDWARE	$76,350.00	LB	04/30/03	04/29/08

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46_559	DEC ART DESIGNS INC.	IL	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
46_552	FRANKLIN FABRIC	IL	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
1PI-C-4209-99	K & K FASTENER, INC	IL	CALABRO	HARDWARE	$3,080.00	SB	07/13/99	07/13/04
46_1387	E.H.R. ENTERPRISES	IL	STONE	PNT0355	$1,730,000.00	SDB	01/13/04	01/12/09
46_1360	AMERILINE ENTERPRISES	IL	BROWN	CTR0909/5475	$370,680.00	SB	12/18/03	12/17/08
TOTAL ACTIVE CONTRACTS:	***28***			***TOTAL GROUP***	***$33,226,516.82***			

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STATE: IN

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_1019	UNIVAR	IN	LEE	CAUSTIC SODA	$106,812.00	LB	12/11/02	12/10/05
46-82	MAYER-PAETZ INC	IN	CAVANAUGH	PANEL FABRIC	$6,273,000.00	SB	10/27/98	01/09/09
46-94	MAYER-PAETZ INC	IN	CAVANAUGH	PANEL FABRIC	$6,273,000.00	SB	10/27/98	01/09/09
1PI-C-3885-99	MAYER-PAETZ INC	IN	CAVANAUGH	PANEL FABRIC	$6,273,000.00	SB	10/27/98	01/09/09
46-92	MAYER-PAETZ INC	IN	CAVANAUGH	PANEL FABRIC	$6,273,000.00	SB	10/27/98	01/09/09
1PI-C-4343-00	CMJ CORP	IN	BROWN	SWH0169	$267,365.00	SB	10/07/99	10/07/04
46-93	MAYER-PAETZ INC	IN	CAVANAUGH	PANEL FABRIC	$6,273,000.00	SB	10/27/98	01/09/09
46_207	MAYER-PAETZ INC	IN	ROBINSON, D.	FABRIC UPHOL.	$128,059,620.00	SB	11/27/00	11/27/05
46_1160	DERBY INDUSTRIES	IN	BARNES	DERBY	$5,000,000.00	SB	03/31/03	10/31/07
1PI-C-4171-99	CMJ CORP	IN	ODOM	RES9313	$47,080.00	SB	07/08/99	07/08/04
46_1116	HI-TECH FOAM	IN	CAVANAUGH	FOAM	$90,000.00	SDB	03/13/03	03/12/06
46_920	JUPITER ALUMINUM	IN	YOUNG	SHA6016	$329,430.00	LB	08/19/02	08/19/04
TOTAL ACTIVE CONTRACTS:	***12***			***TOTAL GROUP***	***$165,265,307.00***			

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: KS								
46_834	IBT, INC.	KS	MCPHERSON	BALL BEARINGS,	$229,680.00	SB	05/31/02	05/30/06
46_1236	XPEDX	KS	YOUNG	PBD0041	$218,687.79	LB	06/11/03	06/11/04
1PI-C-4265-99	CLANCEY CO.	KS	RHINEHART	BUCKLES	$132,000.00	SB	10/21/99	10/17/04
46_792	U.S. SAFETY	KS	CALABRO	SAFETY	$4,000,000.00	SB	04/26/02	05/25/07
TOTAL ACTIVE CONTRACTS:	***4***			***TOTAL GROUP***	***$4,580,367.79***			

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: KY								
46_1476	GRAYBAR ELECT.	KY	ODOM	CTR5540	$1,819,000.00	LB	03/25/04	03/24/09
TOTAL ACTIVE CONTRACTS:	*1*			*TOTAL GROUP*	*$1,819,000.00*			

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: LA								
46_1008	SUPERIOR WOOD PROD.	LA	CAVANAUGH	PARTICLEBOARD	$2,439,800.00	SB	11/12/02	11/11/04
46_715	MECO	LA	MCPHERSON	PUMP UNIT	$1,749,000.00	SB	02/13/02	02/11/07
46_736	SUPERIOR WOOD PROD.	LA	CAVANAUGH	PARTICLEBOARD	$3,132,437.20	SB	03/05/02	03/04/05
46_737	SUPERIOR WOOD PROD.	LA	CAVANAUGH	PARTICLEBOARD	$726,203.36	LB	03/05/02	03/04/05
TOTAL ACTIVE CONTRACTS:	***4***			***TOTAL GROUP***	***$8,047,440.56***			

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: MA								
46_686	PERFORMANCE TEXTILES	MA	CARLOCK	FAB1416	$679,320.00	SB	02/01/02	02/01/05
46_1426	CLEVELAND MOTION	MA	BROWN	GEN1300	$606,000.00	SB	02/11/04	02/10/07
1PI-C-4081-99	HARDIGG INDUSTRIES	MA	STONE	HWS-2912	$2,992.50	SB	04/27/99	04/26/04
46_1034	COLONIAL WIRE & CABLE	MA	ODOM	MILC5086 QPL	$166,367.00	SB	12/11/02	12/15/07
46_1344	ROCKBESTOS-SURPRENANT	MA	BROWN	CBL6983	$1,640,000.00	LB	11/21/03	11/20/08
46_577	GENERAL WIRE PRODUCT	MA	STONE	CBL3570	$1,419,000.00	SB	10/10/01	10/05/06
46_221	TSI MICROELECTRONICS	MA	BROWN	ICT0458	$147,750.00	SB	12/11/00	12/10/05
1PI-C-4266-99	BIW CABLE SYSTEMS	MA	STONE	CBL4208/4209	$592,500.00	LB	09/14/99	08/25/04
46_564	THE FIRST ELECTRONIC	MA	BROWN	CBL2144	$49,825.00	SB	10/04/01	10/03/06
TOTAL ACTIVE CONTRACTS:	***9***			***TOTAL GROUP***	***$5,303,754.50***			

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Effective: 04/05/04

STATE: MD

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_134	W.L. GORE & ASSOC.	MD	RHINEHART	LEASE	$103,428.00	LB	08/02/00	05/31/04
46_584	J. G. EDELEN CO.	MD	ROBINSON, D.	GROMMETS	$28,000.00	SB	10/17/01	10/08/04
46_464	SHIVAAN CORP.	MD	CALABRO	HNG0164	$166,800.00	SDB	07/16/01	07/16/06
46_826	L.A. BENSON CO.	MD	CAVANAUGH	ABRASIVES	$175,483.75	SB	05/28/02	05/27/05
46_1317	ENERGY SYSTEMS ENGINEER.	MD	HUOTARI	ARCHITECT	$122,682.34	SDB	10/15/03	10/31/04
46_868	C.R. DANIELS, INC.	MD	LEE	COTTON DUCK	$1,244,700.00	SB	08/19/02	08/18/05
46_226	J. G. EDELEN CO.	MD	ROBINSON, D.	HARDWARE	$418,400.00	SB	01/23/01	01/23/05
46_519	SHIVAAN CORP.	MD	BROWN	HSG1004	$237,750.00	SB	09/18/01	09/18/06
46_744	REISNER PRODUCTS	MD	BROWN	HWS2901	$206,000.00	SB	03/12/02	03/12/07
46_558	FABRICARE DRAPERIES	MD	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
46_546	SORRELL ENTER.	MD	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
46_1419	CUSTOM FLOOR MATS	MD	MCPHERSON	FLOOR MATS	$105,600.00	SB	03/06/02	03/05/05
46_1234	MARCO ENTERPRISES	MD	CALABRO	CONSTRUCTION	$15,000,000.00	SDB	06/10/03	06/04/08
46-33	C.R. DANIELS, INC.	MD	CARLOCK	FABRIC	$10,573,610.00	SB	05/04/00	05/03/04
1PI-C-4089-99	VISION 2000/KOTA	MD	MERRION	NEW	$5,000,000.00	SB	04/26/99	04/26/09
46_1357	CUSTOM FLOOR MATS	MD	MCPHERSON	FLOOR MATS	$56,400.00	SB	12/09/03	12/08/08
46_1155	SHEPHERD ELECTRIC	MD	BROWN	CIB0010/0041	$661,732.00	SB	03/28/03	03/27/08
1PI-C-4208-99	JG EDELEN	MD	CALABRO	HARDWARE	$89,300.00	SB	07/13/99	07/13/04
46-41	SORRELL ENTER.	MD	CAVANAUGH	UPHOL.	$92,238.75	SB	04/26/00	04/26/05
46_983	XPEDX	MD	YOUNG	PBD0011	$3,000,000.00	LB	10/29/02	10/28/04
46_1063	WERRES CORPORATION	MD	MCPHERSON	AHW5821/SCR827	$250,000.00	SB	01/08/03	01/07/08
1PI-C-4193-99	BLIND INDUST. & SVCS	MD	RHINEHART	CONTRACTSVCS	$65,000,000.00	JWOD	06/22/99	06/22/04
46_1237	XPEDX	MD	YOUNG	PBD0383	$397,687.50	LB	06/13/03	06/19/04

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_1235	XPEDX	MD	YOUNG	PBD0149	$1,092,625.00	LB	06/10/03	06/10/04
46_1298	CLARK CONSTRUCTION GROUP	MD	HUOTARI	ROAD PROJECT	$4,000,000.00		09/08/03	07/11/04
46_1313	M. G. DONAHUE	MD	MERRION	BUILDING SVCS.	$500,000.00	SB	10/01/03	10/01/08
TOTAL ACTIVE CONTRACTS:	***26***			***TOTAL GROUP***	***$108,522,437.34***			

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ACTIVE CONTRACTS BY STATE

Effective: 04/05/04

STATE: MI

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_1188	R.A. MILLER	MI	STONE	ATE0038	$990,000.00	SB	05/01/03	04/29/08
46_809	EDGECOMB METALS	MI	CAVANAUGH	GAUGES	$7,551,500.00	SB	05/09/02	07/18/07
46_873	ARVCO	MI	BROWN	AHW9680	$19,182.00	SB	07/19/02	07/18/07
46_1114	R. A. MILLER	MI	STONE	5985014723134	$674,430.00	SB	02/21/03	02/20/08
1PI-C-4507-00	ARVCO	MI	CAVANAUGH	PKG3939	$160,160.00	LB	02/16/00	02/16/05
46_1192	MARINE POLLUTION	MI	CAVANAUGH	DISPOSAL	$48,452.00	SB	05/02/03	05/02/06
46_835	COMFORT AIR CORP.	MI	MCPHERSON	POWER VENT	$67,580.00	SB	05/31/02	05/30/05
46_845	CADILLAC PRODUCTS	MI	LEE	ORANGE PLASTIC	$112,770.00	SB	06/11/02	06/10/05
46_1248	NARTRON CORP.	MI	BROWN	ELF2327	$99,400.00	SB	07/07/03	07/06/08
46-05	2/90 SIGN SYSTEM INC	MI	CAVANAUGH	SYSTEMS 2/90	$30,000,000.00	LB	03/15/00	03/14/05
46_612	INTERNATIONAL PAPER	MI	ROBINSON, D.	PACKAGING	$428,807.50	LB	11/09/01	11/09/06
46_892	R. A. MILLER	MI	STONE	ANTENNA	$1,744,460.00	SB	07/25/02	07/24/07
46_1324	R. A. MILLER	MI	BROWN	5985013088988	$12,155,500.00	SB	10/17/03	10/16/08
46_943	AMERICAN SEATING CO.	MI	MCPHERSON	AHW2598/AUTO00	$291,060.00	LB	09/20/02	09/19/05
46_1288	R.A. MILLER	MI	STONE	ANTENNAS	$1,764,280.00	SB	08/26/03	08/25/06
TOTAL ACTIVE CONTRACTS:	*15*			*TOTAL GROUP*	*$56,107,581.50*			

UNICOR PROCUREMENT BRANCH
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Effective: 04/05/04

STATE: MN

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_1199	QUALITY METALS	MN	YOUNG	ALUMINUM	$277,000.00	SB	05/08/03	05/07/05
46_839	MINNESOTA MINING	MN	YOUNG	PARTNERSHIP	$12,500,000.00	LB	06/03/02	06/03/07
46_1373	HEINRICH ENVELOPE	MN	MERRION	ENVELOPES	$175,500.00	SB	12/30/03	12/29/04
46_915	ALTERNATORS STARTERS	MN	MCPHERSON	BALL BEARINGS	$16,200.00	SB	08/08/02	08/07/06
46_1198	QUALITY METALS	MN	YOUNG	ALUMINUM	$265,000.00	SB	05/08/03	05/07/05
46_1150	TWIN CITY ENVELOPE	MN	YOUNG	ENV009C	$25,349.00	WOSB	03/21/03	03/20/05
46_433	SPANTEK	MN	CAVANAUGH	EXPANDED METAL	$8,450,220.00	SB	06/14/01	06/12/06
1PI-C-4495-00	VIZIMAGE, LLC	MN	RHINEHART	PFU TRUNKS	$1,188,850.00	LB	02/08/00	02/06/05
46_425	MINNESOTA MINING	MN	YOUNG	RSH75112	$5,000,000.00	LB	06/01/01	06/01/06
46_742	3M	MN	MCPHERSON	EDGE SEALER	$101,815.20	LB	03/01/02	02/28/05
46_840	MINNESOTA MINING	MN	YOUNG	PARTNERSHIP	$12,500,000.00		06/03/02	06/03/07
46_1449	VALSPAR CORP.	MN	ROBINSON, D.	FINISHES	$5,261,584.50	LB	02/27/04	02/26/09
TOTAL ACTIVE CONTRACTS:	***12***			***TOTAL GROUP***	***$45,761,518.70***			

UNICOR PROCUREMENT BRANCH
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STATE: MO

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_979	LEGGETT & PLATT	MO	LEE	INNERSPRINGS	$11,000,000.00	LB	10/28/02	10/27/05
46_1303	LEGGETT & PLATT	MO	LEE	MATTRESS FIBER	$4,159,500.00	LB	09/26/03	09/25/06
46_847	LEGGETT & PLATT	MO	LEE	BATTING	$222,992.50	LB	06/14/02	06/13/07
1PI-C-4224-99	NORMAN LUMBER CO.	MO	ROBINSON, D.	LUMBER	$1,076,000.00	SB	07/26/99	07/25/04
46_999	NORMAN LUMBER CO.	MO	CALABRO	LBR0048	$1,530,987.00	SB	11/07/02	11/06/05
46_687	LEGGETT & PLATT	MO	LEE	BAT0027	$5,797,350.00	LB	02/08/02	02/28/05
46_1134	LEGGETT & PLATT	MO	LEE	LINERS, POLY	$2,641,500.00	SB	04/04/03	04/07/06
46_1134	LEGGETT & PLATT	MO	LEE	POLY LINERS	$2,641,500.00	SB	04/04/03	04/07/06
1PI-C-3988-99	KLEMP CORPORATION	MO	CALABRO	BAR GRATING	$559,500.00	LB	01/25/99	01/24/05
TOTAL ACTIVE CONTRACTS:	***9***			***TOTAL GROUP***	***$29,629,329.50***			

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: MS								
46_1193	GREAT SOUTHERN IND.	MS	CARLOCK	BOXES/LINERS	$58,676.60	SB	05/12/03	05/11/05
1PI-C-4347-00	LAUDERDALE SALES	MS	CARLOCK	SPECIALTY TRUNK	$10,956,000.00	SB	10/13/99	10/11/04
46_677	SEACOAST ELECTRIC CO	MS	BROWN	CBL6979	$166,500.00	SB	02/01/02	02/01/05
46_836	MS BLIND INDUST.	MS	LEE	HWS3017	$202,420.00	JWOD	07/18/02	07/17/04
TOTAL ACTIVE CONTRACTS:	*4*			*TOTAL GROUP*	*$11,383,596.60*			

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Effective: 04/05/04

STATE: NC

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_404	AMERICAN & EFIRD	NC	RHINEHART	THREAD	$885,000.00	SB	07/16/01	07/16/04
46_940	ANGUS FIRE ARMOUR	NC	MCPHERSON	CPL3661/HSE3237	$1,435,880.00	LB	09/18/02	09/17/05
46_381	HANES CONVERTING CO.	NC	BARNES	FAB0090	$445,723.00	LB	04/26/01	04/25/04
46_1295	PRIME COLORS, CORP.	NC	LEE	CHEMICAL	$480,568.00	SB	09/29/03	09/25/05
46_520	AMERICAN & EFIRD	NC	RHINEHART	THD0968	$513,640.00	LB	09/21/01	09/20/04
46_1328	AMERICAN & EFIRD	NC	RHINEHART	THREAD	$111,840.00	SB	11/03/03	11/17/04
46_1409	WHITEVILLE PLYWOOD	NC	CAVANAUGH	PANELS/TOPS	$7,302,924.50	SB	02/02/04	02/03/09
46_581	MILITARY THREADS LLC	NC	CARLOCK	FAB9457	$48,600.00	SB	10/16/01	10/18/04
46_543	WB BRAWLEY COMPANY	NC	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
46_550	MILITARY THREADS LLC	NC	BOYD-VEGA	FABRIC	$781,870.00		09/21/01	09/20/04
46_1301	VALUE TICKING, INC.	NC	BARNES	MATTRESS TICKING	$1,837,500.00	SB	09/12/03	09/12/08
46_469	AMERICAN & EFIRD	NC	BOYD-VEGA	THREAD	$332,640.00		07/19/01	07/18/04
46_388	WARVEL PRODUCTS	NC	CAVANAUGH	CHAIRS	$58,360,500.00	SB	05/24/01	05/23/11
46_1191	FOOTHILLS INC.	NC	LEE	MATTRESS	$99,375.00	SB	05/02/03	05/02/06
46_640	MIAMI THREAD, INC.	NC	RHINEHART	THREAD	$503,700.00	SB	12/06/01	12/05/06
46_1283	AMERICAN & EFIRD	NC	LEE	THREAD	$177,600.00	LB	08/08/03	08/07/05
46_1200	MICROSOFT CORP.	NC	JOHNSON	SERVICES	$96,039.00	SDB	05/08/03	05/09/04
46_1232	MIAMI THREAD, INC.	NC	CARLOCK	THREAD	$90,975.00	SB	06/20/03	06/19/05
46_717	MILITARY THREADS LLC	NC	CARLOCK	FABRIC	$3,151,250.00	SB	03/15/02	03/15/05
1PI-C-4074-99	CROUSE-HINDS MOLDED	NC	STONE	CTR-13742	$427,000.00	SB	04/28/99	04/27/04
46_879	MILITARY THREADS LLC	NC	RHINEHART	FAB1718/WRS000	$87,500.00	SB	08/07/02	08/06/04
46_375	AMERICAN & EFIRD	NC	CARLOCK	THREAD	$165,481.28	LB	04/20/01	04/19/04
46_1184	MIAMI THREAD, INC.	NC	CARLOCK	THREAD	$125,123.18	SB	04/29/03	04/24/05

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
1PI-C-4333-00	NC FOAM INDUSTRIES	NC	ODOM	FOAM	$2,124,400.00	SB	10/12/99	10/11/04
46_885	HAFELE AMERICA CO.	NC	CAVANAUGH	HARDWARE	$83,215.00	SB	07/15/02	07/14/07
46_338	HICKORY SPRINGS	NC	CALABRO	SPRINGS	$856,365.00	SB	03/16/01	04/30/04
46_340	GOELST	NC	ROBINSON, D.	CABINETRY	$28,000,000.00	SB	03/14/01	03/13/06
46_935	BARRDAY CORP	NC	CARLOCK	KEVLAR FABRIC	$277,080.00	SB	09/18/02	09/17/04
46_308	MILITARY THREADS LLC	NC	RHINEHART	FAB9728	$553,000.00	SB	03/06/01	02/27/05
46_880	UNITED GLOVE, INC.	NC	RHINEHART	FAB1718/WRS000	$58,800.00	SB	08/07/02	08/06/04
46_1037	RALEIGH LIONS CLINIC	NC	BARNES	FABRIC	$1,769,477.40	JWOD	12/11/02	12/10/07
46_338	HICKORY SPRINGS	NC	CALABRO	SPRINGS	$856,365.00	SB	03/16/01	04/30/04
46_1361	MIAMI THREAD	NC	LEE	THREAD	$65,750.00	SB	12/24/03	12/23/06
TOTAL ACTIVE CONTRACTS:	***33***			***TOTAL GROUP***	***$112,105,181.36***			

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: ND								
46_1010	SIOUX MANUF. CORP.	ND	ODOM	FAB5007(4)	$4,997,495.50	SBHZ	11/14/02	11/17/04
46_1304	SIOUX MFG	ND	ODOM	FAB5007/5008	$70,685,336.15	SBHZ	09/25/03	09/24/07
TOTAL ACTIVE CONTRACTS:	***2***			***TOTAL GROUP***	***$75,682,831.65***			

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: NE								
46_545	CONTRACT DRAPERIES	NE	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
46_876	ABLE PACKAGING	NE	BROWN	PKG0001	$101,675.00	SB	07/19/02	07/18/07
TOTAL ACTIVE CONTRACTS:	***2***			***TOTAL GROUP***	***$101,675.00***			

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: NH								
46_748	NSAI, INC.	NH	ROBINSON, R.	ISO CERT.	$606,600.00	SB	03/07/02	03/07/07
46_917	HAMPSHIRE CONTROL	NH	MCPHERSON	DIGITAL HEAT	$525,000.00	SB	08/08/02	08/07/07
46_1226	JRH ELECTRONICS	NH	BROWN	SWH0241	$326,300.00	SB	05/30/03	05/30/08
TOTAL ACTIVE CONTRACTS:	*3*			*TOTAL GROUP*	*$1,457,900.00*			

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: NJ								
46_886	AEROFLEX INTERN.	NJ	ODOM	BSE0109	$286,650.00	SB	07/15/02	07/14/07
46_1190	PRODUCT MARKETING	NJ	LEE	MATTRESS	$150,000.00	SB	05/22/03	05/22/06
46_1178	SANYO ENERGY	NJ	STONE	BTT0082	$710,000.00	LB	04/17/03	04/16/08
46_1385	SONETRONIC	NJ	BROWN	CTR7900	$276,000.00	SB	01/14/04	01/13/09
1PI-C-4057-99	BDF INDUS. FASTENERS	NJ	ROBINSON, D.	HARDWARE	$3,096.00	SB	04/05/99	04/05/04
46_1348	GENERAL CONNECTOR	NJ	STONE	CTR9839/0395	$5,222,050.00	SB	11/25/03	11/24/08
1PI-C-4027-99	STAR DYNAMIC CORP.	NJ	STONE	AMPLIFIER	$779,750.00	LB	03/02/99	05/12/04
1PI-C-4270-99	GENERAL CONNECTOR	NJ	BROWN	MIL 55116	$1,004,500.00	LB	09/03/99	09/02/04
46_1169	ATLANTIC TEXTILES	NJ	CARLOCK	FAB8340	$433,500.00	SB	04/08/03	04/07/06
46_693	DIVERSITEX, INC.	NJ	RHINEHART	FABRIC	$1,190,000.00	SB	01/30/02	01/29/07
46_1075	ANDREX INC.	NJ	BROWN	CND0240	$276,750.00	SB	01/23/03	01/22/08
1PI-C-4353-00	JRH ELECTRONICS	NJ	STONE	CTR8089	$129,168.00	SB	10/15/99	10/13/04
46_175	ATLANTIC TEXTILES	NJ	CARLOCK	FAB9302	$299,268.00	SB	10/18/00	10/17/04
46_1090	SWISS TECHNOLOGY	NJ	STONE	CPL1495/BAA0110	$444,800.00	SB	02/07/03	02/06/08
46_855	SWISS TECHNOLOGY	NJ	ODOM	HWS1450	$537,948.00	SB	06/20/02	06/19/07
1PI-C-4212-99	BDF INDUS. FASTENERS	NJ	CALABRO	HARDWARE	$1,050.00	SB	07/13/99	07/13/04
46_931	SONETRONIC	NJ	ODOM	HWS1447	$897,000.00	SB/W	09/04/02	09/03/07
1PI-C-3404-98	MILLER PRODUCTS CO.	NJ	ROBINSON, D.	PVC MOLDING	$824,076.00	SB	12/02/97	04/30/04
1PI-C-4213-99	JUSTICE ASSOCIATES	NJ	ODOM	TECHNICAL SVCS	$253,494.24	SB	07/06/99	07/06/04
46_1115	ELECTRONIC CONNECTIONS	NJ	STONE	CTR4483	$588,000.00	SB	03/05/03	03/04/08
46_1471	AALL AMERICAN FASTENER	NJ	ODOM	CBA0050	$535,500.00	WOSB	03/25/04	03/24/09
46_1167	AALL AMERICAN FASTENERS	NJ	BROWN	TOL (21)	$184,900.00	SB	04/15/03	04/14/08
46_1380	AALL AMERICAN FASTENERS	NJ	ODOM	HMT0010	$663,422.42	SB	01/08/04	01/08/08

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46_1462	JRH ELECTRONICS	NJ	ODOM	CTR1212	$366,080.00	SB	03/14/04	03/14/09
46_724	PLASTASONICS	NJ	BROWN	BX0260	$311,600.00	SB	02/22/02	02/22/07
46_1170	AALL AMERICAN FASTENER	NJ	STONE	CTR9737	$348,500.00	SB	04/10/03	04/09/08
46_867	AALL AMERICAN FASTENER	NJ	ODOM	BLT0226(88)	$142,331.00	SB	07/11/02	07/10/07
46_1455	WEINRICH	NJ	MERRION	WEB SUPPORT	$250,000.00	SB	02/27/04	03/27/05
46_1000	INTEGRATED LOGISTICS	NJ	STONE	BLT/NUT	$151,801.20	SB	11/14/02	11/11/07
46_1467	GENERAL CONNECTOR	NJ	ODOM	ELF2314(19)	$847,500.00	SBHZ	03/25/04	03/24/09
46_596	SPRINGS IND., INC.	NJ	LEE	FAB0478/8680	$1,320,000.00	LB	11/20/01	11/20/04
46_739	AALL AMERICAN FASTENER	NJ	STONE	CBA0050	$269,000.00	SB	02/28/02	02/28/07
46_1462	JRH ELECTRONICS	NJ	ODOM	CTR1212	$366,080.00	WOSB	03/15/04	03/14/09
46_919	E & T PLASTICS	NJ	CAVANAUGH	GLASS	$68,100.00	SB	08/20/02	08/19/07
46_508	GENERAL CONNECTOR	NJ	BROWN	CTR17633	$228,600.00	LB	09/04/01	09/04/06
TOTAL ACTIVE CONTRACTS:	***35***			***TOTAL GROUP***	***$20,360,514.86***			

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: NV								
46_841	VIA, INC.	NV	CAVANAUGH	VIA SEATING	$500,000.00	SB	06/20/02	06/19/07
46_1032	CRI	NV	ODOM	CIB0049/0051	$1,748,258.00	SDB	12/13/02	12/12/07
46_1186	CRI	NV	BROWN	CIB0005	$194,873.00	SDB	04/28/03	04/27/08
TOTAL ACTIVE CONTRACTS:	*3*			*TOTAL GROUP*	*$2,443,131.00*			

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STATE: NY

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_503	POWER CONNECTOR	NY	STONE	ADP0193/0201	$301,000.00	SB	08/24/01	08/23/06
1PI-C-4296-99	POWER CONNECTOR	NY	ODOM	CNT6218	$394,500.00	SB	09/21/99	09/17/04
1PI-C-4497-00	ISIDOR STERN	NY	RHINEHART	PFU TRUNKS	$300,000.00	SB	02/10/00	02/09/05
1PI-C-3886-99	BLOOMSBURG MILLS	NY	CAVANAUGH	PANEL FABRIC	$4,677,500.00	LB	10/27/98	01/09/09
46_521	POWER CONNECTOR	NY	STONE	ADP3206	$14,280.00	SB	09/18/01	09/18/06
46_411	CHIP TECH	NY	ODOM	FIL0654	$313,885.00	SB	05/21/01	05/21/06
46-96	ERGO VIEW	NY	ROBINSON, D.	KEYBOARD	$918,000.00	SB	08/07/98	06/12/04
46_349	REMEE PRODUCTS	NY	STONE	CBL2992	$2,270,666.25	SB	03/26/01	03/25/06
46_421	RAYTEX FABRICS	NY	BOYD-VEGA	BAT0043	$262,500.00	SB	05/29/01	05/28/04
1PI-C-4289-99	EDSAL MACHINE	NY	BROWN	HAP0092 (4)	$7,600,000.00	SB	09/20/99	09/19/04
46_526	POWER CONNECTOR	NY	ODOM	RADIO MOUNTS	$16,800.00	SB	09/14/01	09/13/06
46_348	SHANE INDUSTRIES	NY	STONE	REL0001	$3,114,000.00	SB	03/26/01	03/25/06
46_311	DENELEX COMPONENTS	NY	STONE	CTR17526	$1,223,440.00	SB	03/02/01	03/05/05
1PI-C-4382-00	EMSIG MFG. CORP.	NY	CARLOCK	BUTTONS	$1,347,660.00	SB	11/23/99	11/22/04
46_518	CHIP TECH	NY	MCPHERSON	VARIOUS WIRE	$35,000.00	SB	09/07/01	09/07/06
46_696	HUMANSCALE	NY	CAVANAUGH	FREEDOM	$11,507,640.00	SB	08/05/99	08/30/04
46_476	ROCKVILLE FABRICS	NY	CARLOCK	FABRIC	$263,565.00	SB	07/31/01	07/30/04
46_237	SPINNEYBECK, INC.	NY	CAVANAUGH	LEATHER UPHOL.	$32,500,000.00	SB	01/08/01	01/07/08
1PI-C-4582-00	CHIP TECH	NY	ODOM	TRS1549/1550	$41,874.00	SB	04/19/00	04/19/05
46-89	BLOOMSBURG MILLS	NY	CAVANAUGH	PANEL FABRIC	$4,677,500.00	LB	10/27/98	01/09/09
46-91	BLOOMSBURG MILLS	NY	CAVANAUGH	PANEL FABRIC	$4,677,500.00	LB	10/27/98	01/09/09
46-90	BLOOMSBURG MILLS	NY	CAVANAUGH	PANEL FABRIC	$4,677,500.00	LB	10/27/98	01/09/09
1PI-C-4207-99	EDSAL MACHINE	NY	CALABRO	HARDWARE	$217,000.00	SB	07/13/99	07/13/04

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1PI-C-4531-00	THURO METAL PRODUCTS	NY	STONE	NUT0075	$772,250.00	SB	03/03/00	03/06/05
1PI-C-4204-99	A. L. LIEBMAN & SON	NY	CALABRO	HARDWARE	$132,807.00	SB	07/13/99	07/13/04
46-86	BLOOMSBURG MILLS	NY	CAVANAUGH	PANEL FABRIC	$4,677,500.00	LB	10/27/98	01/09/09
1PI-C-4407-00	AMPHENOL CORP.	NY	ODOM	CTR1537	$259,028.00	LB	11/22/99	11/22/04
1PI-C-4170-99	CHIP TECH	NY	BROWN	RES-0644	$527,878.00	SB	07/08/99	07/08/04
1PI-C-4127-99	AMPHENOL CORP.	NY	BROWN	CTR1685	$54,972.00	LB	05/21/99	05/21/04
1PI-C-4083-99	EDSAL MACHINE	NY	STONE	CVR0294	$221,600.00	SB	04/27/99	04/26/04
46_306	EAW ELECTRONICS SYS.	NY	STONE	PCC0135/0155	$1,756,500.00	SB	03/06/01	03/05/06
1PI-C-4414-00	CHIP TECH	NY	MCPHERSON	WIRES/CONNECT	$70,042.80	SB	12/06/99	12/02/04
46_481	STIMPSON CO.	NY	CARLOCK	GRM0395/WSH4053	$2,469,225.00	LB	08/03/01	08/03/04
1PI-C-4272-99	POWER CONNECTOR	NY	BROWN	MIL 10544	$147,000.00	SB	09/03/99	09/02/04
46_533	POWER CONNECTOR	NY	ODOM	CNT0028	$115,275.00	SB	09/19/01	09/18/06
46_234	SHANE INDUSTRIES	NY	STONE	CBL7012/CTR1922	$895,000.00	SB	01/02/01	01/01/06
1PI-C-4065-99	MONROE CABLE COMPANY	NY	STONE	CBL-3269	$4,731,999.96	SB	04/07/99	04/07/04
46_400	SEACOAST ELECTRIC CO	NY	ODOM	CBL5936 (4)	$323,700.00	SB	05/21/01	05/21/06
1PI-C-4130-99	CANFIELD ELECTRONICS	NY	BROWN	LMP0159	$113,880.00	SB	05/21/99	05/21/04
46_466	JIT INC.	NY	CALABRO	HINGES	$1,675,900.00	SB	07/31/01	07/31/04
1PI-C-4469-00	LEHIGH SAFETY SHOE	NY	YOUNG	SHOE DISTRIB.	$7,052.00	LB	01/18/00	01/18/05
1PI-C-4136-99	HUNT COUNTRY COMPONE	NY	CALABRO	FIBERGL. SEATS	$709,290.00	SB	05/25/99	05/25/04
1PI-C-4156-99	EDSAL MACHINE	NY	CAVANAUGH	BRACKET	$150,000.00	SB	05/28/99	06/30/07
46_478	EMSIG MFG. CORP.	NY	RHINEHART	BUTTONS	$402,493.06	LB	08/01/01	07/31/04
1PI-C-4286-99	DENELEX COMPONENTS	NY	ODOM	MIL 24308	$165,800.00	SB	09/15/99	09/15/04
46_522	EDSAL MACHINE	NY	STONE	BLT1425	$394,250.00	SB	09/18/01	09/06/06
1PI-C-4034-99	AMPHENOL CORP.	NY	ODOM	MIL-5015	$10,000,000.00	LB	04/01/99	04/01/06
1PI-C-4269-99	POWER CONNECTOR	NY	BROWN	MIL 55116	$83,000.00	SB	09/03/99	09/02/04

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1PI-C-4470-00	GOALTEX CORP.	NY	YOUNG	SHOE DISTRIB.	$93,883.44	LB	01/19/00	01/19/05
46_1057	POWER CONNECTOR	NY	STONE	ADP3663	$143,000.00	SB	01/06/03	01/05/08
46_740	RNJ ELECTRONICS, INC.	NY	MCPHERSON	AMP/SPEAKERS	$59,583.60	SB	02/28/02	02/26/05
46_1001	POWER CONNECTOR	NY	STONE	CTR15520	$87,000.00	SB	11/14/02	11/11/07
46_2180	ATLANTIC PLYWOOD	NY	CAVANAUGH	MICORE	$78,300.00	SB	08/06/03	08/06/08
46_865	AMPHENOL CORP.	NY	BROWN	CTR10254	$529,120.00	LB	07/02/02	07/01/05
46_1326	AUTOMATIC CONNECTOR	NY	BROWN	CTR2542/2122	$438,850.00	SB	10/24/03	10/23/08
46_1347	AMPHENOL CORP.	NY	STONE	MIL22992QPL	$71,369,075.53	LB	11/25/03	11/24/08
46_899	AMPHENOL CORP.	NY	BROWN	CTR1535	$422,715.00	LB	07/26/02	07/25/07
46_1351	POWER CONNECTOR	NY	STONE	CMP0517/CNT0873	$1,845,000.00	SB	12/04/03	12/02/08
46_1470	ALL TECH ELECTRONICS	NY	ODOM	ICT0302	$227,500.00	SB	03/25/04	03/24/09
46_1062	AMERICAN TRANS-COIL	NY	ODOM	SWH0441	$374,550.00	SB	01/08/03	01/08/08
46_1082	POWER CONNECTOR	NY	BROWN	NUT0157/RNG007	$225,000.00	SB	01/30/03	01/28/08
46_980	STIMPSON CO.	NY	CARLOCK	SNAPS/GROMMETS	$147,420.16	SB	11/05/02	11/04/04
46_1065	ALL TECH ELECTRONICS	NY	STONE	TRS1516	$148,800.00	SB	01/13/03	01/12/08
46_1425	PICO ELECTRONIC	NY	STONE	TRF0016	$287,850.00	SB	02/05/04	02/04/09
46_1088	GALEY & LORD, INC.	NY	CARLOCK	FAB3990	$110,000.00	LB	01/30/03	01/29/05
46_1033	BERRY INDUSTRIAL GROUP	NY	CAVANAUGH	HARDWOOD	$378,288.00	SB	12/10/02	12/09/07
46_1312	POWER CONNECTOR	NY	STONE	CTR7954	$498,000.00	SB	10/07/03	10/06/08
46_952	ALBEST METAL STAMP.	NY	RHINEHART	KEEPERS	$194,600.00	SB	09/27/02	09/27/05
46_954	POWER CONNECTOR	NY	BROWN	RNG1200/1187	$500,000.00	SB	10/07/02	10/06/07
46_888	COMPLETE PACKAGING	NY	BROWN	PKG0002	$111,105.50	SB	07/19/02	07/18/07
46_750	EDSAL MACHINE	NY	BROWN	ADP6416/6417	$111,250.00	SB	03/12/02	03/12/07
46_1004	CHIP TECH	NY	BROWN	COL,LMP,TML	$357,128.00	SB	11/13/02	11/12/07
46_749	PICO ELECTRONIC	NY	STONE	TRF0024	$498,000.00	SB	03/08/02	03/08/07

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46_1477	CHIP TECH	NY	ODOM	CPR0549	$1,006,750.00	SB	03/25/04	03/24/09
46_1068	ALBEST METAL STAMP	NY	RHINEHART	SNAPS	$104,205.00	SB	01/16/03	02/28/06
46_1464	TECMOTIV USA	NY	MCPHERSON	AHW6791	$52,776.00	SB	03/17/04	04/30/04
46_753	CHIP TECH	NY	ODOM	DIO242 (11)	$243,100.00	SB	03/12/02	03/07/07
46_738	PLURIBUS PRODUCT	NY	BROWN	BOX0299	$457,500.00	SB	03/07/02	03/07/07
46_1066	ALBEST METAL STAMP.	NY	RHINEHART	FAS0125	$119,700.00	SB	01/10/03	02/28/06
46_1027	POWER CONNECTOR	NY	STONE	CLP0112/0113	$315,000.00	SB	12/11/02	12/05/07
46_1015	CANFIELD ELECTRONICS	NY	STONE	SWH0290	$188,939.00	SB	11/20/02	11/18/07
46_711	ESCO FASTENERS	NY	BROWN	PLT0955	$82,600.00	SB	02/22/02	02/22/07
46_752	EDSAL MACHINE	NY	ODOM	ADP2033	$190,000.00	SB	03/12/02	03/07/07
46_772	EDSAL MACHINE	NY	MCPHERSON	RIV5161	$39,000.00	SB	03/26/02	03/26/05
46_1045	AMERICAN TRANS-COIL	NY	STONE	SATELLITE PARTS	$158,959.00	SB	12/23/02	12/19/07
46_722	POWER CONNECTOR	NY	STONE	CTR0206	$125,600.00	SB	02/26/02	02/25/07
46_829	ISIDOR STERN	NY	CARLOCK	TAPE	$4,000,000.00	SB	05/29/02	05/28/08
46_1355	TRIDENT IND. PRODUCT	NY	LEE	CLOTH, NYLON	$1,782,847.00	SB	12/17/03	12/16/09
46_1262	RODELCO ELECTRONICS	NY	STONE	PNL0030	$1,710,000.00	SB	07/18/03	07/17/08
46_1334	POWER CONNECTOR	NY	ODOM	ADP3656	$871,500.00	SB	11/07/03	11/09/08
46_1265	AMPHENOL	NY	BROWN	CTR5692	$1,011,720.00	LB	07/31/03	07/30/08
46_837	POWER CONNECTOR	NY	BROWN	CNT6309/6310	$1,069,200.00	SB	06/06/02	06/06/07
46_1376	DELFORD INDUSTRIES	NY	ODOM	HMT0055	$469,685.00	SB	01/08/04	01/07/08
46_634	POWER CONNECTOR	NY	STONE	CTR12115	$411,600.00	SB	11/26/01	11/26/06
46_821	AMERICAN TRANS-COIL	NY	MCPHERSON	SEMICONDUCTO	$240,084.00	SB/W	05/24/02	05/24/06
46_1219	POWER CONNECTOR	NY	BROWN	CNT6215/6216	$1,468,000.00	SB	05/22/03	05/27/08
46_816	SEACOAST ELECTRIC CO	NY	ODOM	CBL8420	$3,222,500.00	SB	05/20/02	05/21/07
46_1356	BRUNO MACHINERY CORP	NY	ODOM	COMPRESS.	$523,750.00	SB	12/10/03	04/20/04

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46_505	EDSAL MACHINE	NY	STONE	ADP0193/0201	$94,000.00	SB	08/24/01	08/23/06
46_1374	SHANE INDUSTRIES	NY	BROWN	REL0004	$2,123,750.00	SB	01/08/04	01/07/09
46_1427	ESCO FASTENERS	NY	STONE	HWS2878/2879	$485,400.00	SB	02/05/04	02/04/09
46_1468	POWER CONNECTOR	NY	STONE	CTR12128	$1,122,500.00	SB	03/24/04	03/23/09
46_539	POWER CONNECTOR	NY	BROWN	CTR12127	$417,500.00	SB	09/20/01	09/20/06
46_1364	POWER CONNECTOR	NY	ODOM	PLT0900/0955	$180,000.00	SB	12/19/03	12/18/08
46_970	ART PRECISION METALS	NY	ODOM	ELF0459/LMP0014	$146,000.00	SB	10/17/02	11/05/07
46_680	PONDEROSA PACK. CORP	NY	CARLOCK	PAC6312/0463	$202,500.00	SB	01/16/02	01/15/07
46_1084	DENELEX RESTART	NY	STONE	MIL39012 QPL	$8,685,700.00	SB	01/29/03	01/28/08
46_1085	POWER CONNECTOR	NY	ODOM	CTR12508	$1,184,800.00	SB	01/30/03	01/29/08
46_908	CHIP TECH	NY	STONE	CPR0135(5)	$150,400.00	SB	08/14/02	08/14/07
46_1091	POWER CONNECTOR	NY	BROWN	IND0012	$693,000.00	SB	02/06/03	02/05/08
46_1110	ASTROCOM ELECTRONICS	NY	BROWN	CBL2306	$472,000.00	SB	02/28/03	02/27/08
46_1092	ACCUSONIC PRODUCTS	NY	STONE	HWS1443	$2,370,000.00	SB	02/05/03	02/04/08
46_969	POWER CONNECTOR	NY	STONE	CTR18480	$180,000.00	SB	10/18/02	10/20/07
46_1003	EDSAL MACHINE	NY	STONE	BLT1425/NUT0854	$43,200.00	SB	11/14/02	11/11/07
46_1340	CENTURY METAL PARTS	NY	ODOM	REL0015	$496,900.00	SB	11/17/03	11/16/06
46_1136	TRIANGLE ELECTRONICS	NY	BROWN	SWH9104	$254,400.00	SB	03/17/03	03/16/08
46_1218	CHEM-TICK	NY	LEE	COTTON TICKING	$4,199,350.00	SB	05/29/03	05/29/06
46_1122	EDSAL MACHINE	NY	STONE	HWS1565	$222,000.00	SB	03/06/03	03/05/08
46_1164	POWER CONNECTOR	NY	STONE	CNT0642	$2,248,600.00	SB	04/04/03	04/30/08
TOTAL ACTIVE CONTRACTS:	***119***			***TOTAL GROUP***	***$237,281,287.30***			

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STATE: OH

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_365	ITT CANNON	OH	BROWN	CTR2934	$296,800.00	LB	04/10/01	04/09/06
46_589	ADVANCE WIRE & CABLE	OH	STONE	SLV1758/1704	$1,430,100.00	SB	10/19/01	10/19/06
46_842	CDI	OH	BROWN	CTR12565/10489	$812,630.00	SB	06/06/02	06/05/07
46_933	EAM INC.	OH	CAVANAUGH	PACKAGING	$107,340.00	LB	09/06/02	09/05/07
46_894	KOEHLKE COMPONENTS	OH	BROWN	CTR21336	$280,000.00	SB	07/24/02	04/23/07
46_783	STANDARD TEXTILE	OH	CARLOCK	FAB8161/8162	$402,900.00	LB	04/29/02	04/28/05
46_364	ITT CANNON	OH	ODOM	MIL 24308	$37,250.00	LB	09/15/99	09/15/04
46_1478	ERICSON MANUFACT.	OH	STONE	ELF2355	$157,500.00	SB	03/25/04	03/24/09
46_1414	ITT CANNON	OH	BROWN	CTR2934	$5,923,600.00	LB	03/03/04	06/29/09
1PI-C-4218-99	STANDARD TEXTILE	OH	RHINEHART	LINEN SERVICES	$5,000,000.00	LB	08/13/99	08/12/04
46_1388	DIAMOND POLYMERS	OH	STONE	CHG0792	$374,400.00	SB	01/14/04	01/13/09
46_1337	DELCO CORP.	OH	ODOM	MOLDS	$305,600.00	SB	11/13/03	11/12/04
1PI-C-4128-99	ERICSON MANUFACT.	OH	BROWN	BOX-0213	$62,160.00	SB	05/21/99	05/21/04
1PI-C-3102-97	REPUBLIC STORAGE SYS	OH	CALABRO	RIVOT LOCK. SHV	$2,000,000.00	LB	04/10/97	04/10/07
46_1229	SCHOTT INTERNATIONAL	OH	CARLOCK	COTTON	$169,050.00	SB	06/05/03	06/04/06
46_555	STANDARD TEXTILE	OH	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
1PI-C-4211-99	EBERHARD	OH	CALABRO	HARDWARE	$627,000.00	SB	07/13/99	07/13/04
46_1472	NORDSON CORPORATION	OH	CALABRO	PAINT SYSTEM	$148,914.07	SB	03/24/04	05/24/04
46_1050	CONNECTIVE DESIGN, INC.	OH	ODOM	CTR2189	$330,000.00	SB	12/23/02	12/23/07
46_646	ADVANCE WIRE & CABLE	OH	BROWN	CBL8507	$384,500.00	SB	12/10/01	12/09/04
46_926	IMPERIAL ADHESIVES	OH	CAVANAUGH	ADHESIVE	$253,275.00	LB	08/30/02	09/11/07
46_412	BOX USA	OH	ROBINSON, D.	PACKAGING	$550,462.50	SB	05/18/01	05/21/04
46_1399	SEALED AIR CORP.	OH	ODOM	CHARGERS	$221,644.50	LB	01/20/04	01/07/07

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46_779	SEALED AIR CORP.	OH	CAVANAUGH	FOAM	$3,550,000.00	LB	04/05/02	04/04/07
46_291	SCHOTT INTERNATIONAL	OH	CARLOCK	FAB1383	$300,000.00	SB	02/21/01	05/20/04
46_459	STANDARD TEXTILE	OH	CARLOCK	FAB3188	$600,000.00	LB	07/18/01	07/18/04
46_307	PEPPERL & FUCHS	OH	ODOM	EHR3256	$846,665.00	LB	03/01/01	03/01/06
46_756	SHERWIN WILLIAMS	OH	CALABRO	POWDER PAINT	$4,109,700.00	LB	03/12/02	05/01/07
46_1041	ADVANCE WIRE & CABLE	OH	BROWN	CBL4302(8)	$406,060.00	SB	12/18/02	12/16/07
46_929	FLOYD BELL	OH	MCPHERSON	LMP0404	$20,565.00	SB	08/07/02	08/06/05
46_549	ROADWAY EXPRESS	OH	ROBINSON, D.	TRANSPORTATIO	$20,000,000.00	LB	09/21/01	09/21/06
TOTAL ACTIVE CONTRACTS:	***31***			***TOTAL GROUP***	***$49,708,116.07***			

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STATE: OK

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_264	BALDWIN STEEL	OK	CALABRO	COS0048	$1,125,747.50	LB	01/23/01	01/22/11
1PI-C-4472-00	BEAM'S INDUSTRIES	OK	MCPHERSON	HWS6169	$575,000.00	SB	02/03/00	05/01/05
46_479	UNITED WASTE, INC.	OK	BOYD-VEGA	TRASH SVCS.	$45,000.00		08/02/01	08/01/04
46_1381	METAL SPECIALTY CO., INC.	OK	CALABRO	TUBE STEEL		SB	11/07/03	01/07/05
46_572	ACCENT DRAPERY	OK	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
46_673	WASHITA PIPE & STEEL	OK	CALABRO	STEEL SCRAP	$1,876,312.50	SB	01/10/02	01/10/07

TOTAL ACTIVE CONTRACTS: ***6*** ***TOTAL GROUP*** ***$3,622,060.00***

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STATE: OR								
46_1094	TIMBER PRODUCTS	OR	CAVANAUGH	PLYWOOD	$4,807,300.00	SB	02/20/03	02/20/08
46_1405	D. STAKE MILL	OR	ROBINSON, D.	LUMBER	$390,500.00	SB	01/28/04	01/27/09
46_1059	CARBIDE SAW	OR	ROBINSON, D.	TOOL SHARPENING	$110,937.00	SDB	12/23/02	12/22/04
1PI-C-4229-99	CONTINENTAL HARDWOOD	OR	ROBINSON, D.	LUMBER	$3,352,250.00	SB	07/27/99	07/27/04
46_1106	JOHNSON INTERNATION.	OR	CAVANAUGH	PLYWOOD	$5,211,686.00	SB	02/20/03	02/20/08
46_351	NORTH PACIFIC LUMBER	OR	CAVANAUGH	PLYWOOD	$921,600.00	SB	04/02/01	04/01/06
1PI-C-4409-00	COLUMBIA CORRUGATED	OR	ROBINSON, D.	PACKING MAT.	$244,918.03		11/24/99	04/18/04
46_491	NORTH PACIFIC LUMBER	OR	CAVANAUGH	SOFTWOOD	$932,712.00	SB	08/10/01	08/10/06
TOTAL ACTIVE CONTRACTS:	***8***			***TOTAL GROUP***	***$15,971,903.03***			

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STATE: PA

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_697	FASTENING PRODUCTS	PA	CAVANAUGH	SCREWS	$186,951.50	SB	02/08/02	02/07/07
46_1246	QUIGLEY MOTOR CO.	PA	MCPHERSON	CONVERSION	$701,550.00	SB	06/27/03	06/26/05
1PI-C-3403-98	YKK USA INC	PA	BARNESLEE	ZIPPERS	$29,906.00	SB	11/12/97	11/19/08
46_419	EDDINGTON THREAD	PA	BARNES	THREAD	$931,675.46	SB	06/04/01	06/03/04
46_1440	SUSQUEHANNA MOTORSPORTS	PA	MCPHERSON	LMP0058	$118,050.00	SB	02/27/02	02/27/05
46_1339	B & W DISPOSAL	PA	CAVANAUGH	TRASH SVCS.	$84,000.00	SB	12/08/03	11/30/04
46_448	LINDGREN CORP.	PA	DOUGLAS	VAR. THREAD	$102,543.93		06/29/01	06/28/04
46_353	CSI-MAXIMUS INC.	PA	MCPHERSON	SOFTWARE	$6,018,994.00	LB	03/23/01	03/23/06
46_537	ALMO WIRE & CABLE	PA	ODOM	WIR5112/5113	$886,000.00	SB	09/19/01	09/18/06
46_529	SMITH COMPANY	PA	CAVANAUGH	FOAM	$232,825.00	SB	09/19/01	09/18/04
46_1240	IFS INDUSTRIES	PA	ROBINSON, D.	ADHESIVE	$825,693.00	LB	06/18/03	06/17/08
46_1035	HLC INDUSTRIES	PA	CARLOCK	POLYESTER	$3,492,000.00	SB	12/18/02	12/17/05
1PI-C-4555-00	BEACON CONTAINER	PA	ROBINSON, D.	CARDBOARD	$263,000.00	SB	04/03/00	03/30/05
46_386	ALMO WIRE & CABLE	PA	BROWN	CBL0878	$517,050.00	SB	05/01/01	05/01/06
46_414	ALMO WIRE & CABLE	PA	ODOM	MIL13486	$140,450.00	SB	05/29/01	06/07/06
46_1039	KASBAR NATIONAL	PA	RHINEHART	FAB3181	$496,638.00	SB	12/19/02	12/18/05
46_159	YKK USA INC.	PA	CARLOCK	PFU JACKETS	$149,737.70		02/04/00	02/03/05
46_684	INDEPENDENT HARDWARE	PA	MCPHERSON	LOX0846	$118,512.00	SB	01/18/02	01/17/05
46_1252	LEWIS LUMBER	PA	ROBINSON, D.	LUMBER	$123,550.00	SB	07/03/03	07/02/06
1PI-C-4468-00	IRON AGE CORP.	PA	JOHNSON	SHOE DISTRIB.	$22,095.00	LB	01/19/00	01/18/05
46_440	ALMO WIRE & CABLE	PA	BROWN	CBL8438	$98,790.00	SB	06/22/01	06/21/06
46_580	YKK USA INC.	PA	CARLOCK	HKL0113/0114	$108,000.00	LB	10/18/01	10/17/04
1PI-C-4483-00	KASBAR NATIONAL	PA	RHINEHART	PFU TRUNKS	$2,029,222.42	SB	02/07/00	02/06/05

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1PI-C-4415-00	BLOCKHOUSE	PA	CALABRO	SERVICE CONT	$945,000.00	SB	12/07/99	12/08/09
1PI-C-4158-99	TROUTMAN SANITATION	PA	JOHNSON	TRASH SERVICES	$130,500.00	SB	06/01/99	06/01/04
46_1109	NARRICOT INDUS.	PA	RHINEHART	WEBBING/TAPE	$289,680.00	SB	02/14/03	02/13/06
46_1223	REALTECH, INC.	PA	JOHNSON	ADVISORY	$529,300.00	SB		05/31/04
46_500	ALLIED WIRE & CABLE	PA	BROWN	CBL8343	$570,000.00	SB	08/29/01	08/27/06
46_907	HAVIS SHIELDS	PA	MCPHERSON	LMP0404	$119,080.00	SB	08/07/02	08/06/05
46_1391	CENTRAL PENN SEWING	PA	RHINEHART	VARIOUS	$8,690.00	SB	01/15/04	04/15/04
46_1264	ATD AMERICAN CO.	PA	LEE	SHEETING	$217,500.00	SB	07/30/03	07/29/06
46_361	ATLAS WHOLESALE SUP.	PA	CAVANAUGH	MINERAL BOARD	$187,620.00	SB	04/05/01	08/24/04
46_497	DIVERSIFIED MARKET.	PA	BARNES	HOOKS/LOOPS	$130,228.80		08/24/01	10/07/04
46_777	ALMO WIRE & CABLE	PA	STONE	CBL2052	$205,900.00	SB	04/10/02	04/08/07
46_240	ALMO WIRE & CABLE	PA	ODOM	CBL5332	$637,500.00	SB	01/09/01	01/09/06
1PI-C-4105-99	HYTRON ELECTRIC	PA	ODOM	LMP-0195	$472,560.00	SB	05/10/99	05/10/04
46_1429	ALMO WIRE & CABLE	PA	STONE	CBL2055	$1,408,000.00	SB	02/05/04	02/04/09
46_1456	FANELLI BROS. TRUCKING	PA	ROBINSON, D.	STORAGE	$162,000.00	SB	03/04/04	03/02/09
46_669	ATD AMERICAN	PA	CARLOCK	FAB0983/0984	$1,035,120.00	SB	01/09/02	01/08/05
46_1230	DIVERSIFIED MARKET.	PA	RHINEHART	COTTON	$52,713.60	SB	06/05/03	06/04/06
46_643	SPECIALTY PROD.	PA	ROBINSON, D.	FIBERGLASS	$20,531,710.00	LB	12/10/01	12/04/06
46_804	ATD AMERICAN	PA	LEE	FAB0210	$73,950.00	SB	05/10/02	05/09/04
46_906	WOOLRICH, INC.	PA	RHINEHART	CUTTING SVCS.	$2,664,690.00	LB	08/13/02	07/30/07
46_461	ALLIED WIRE & CABLE	PA	ODOM	MIL17 QPL	$407,848.00	SB	07/11/01	07/13/06
46_884	YKK USA INC.	PA	CARLOCK	HOOK/LOOP	$209,597.25	SB	07/26/02	07/25/04
46_883	EDDINGTON THREAD	PA	CARLOCK	THREAD	$75,006.00	SB	07/26/02	07/25/04
46_1408	RUSSELL PLYWOOD, INC.	PA	CAVANAUGH	PANELS/TOPS	$8,983,055.00	SB	02/02/04	02/03/09
46_754	PEI-GENESIS	PA	BROWN	CTR10314	$413,175.00	SB	03/13/02	03/13/07

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46_509	SPECIALTY PROD.	PA	CAVANAUGH	MINERAL BOARD	$2,245,400.00	SB	09/06/01	09/05/05
46_463	PERFORMANCE LIGHTING	PA	TANNER	31101	$8,257,500.00	SB	07/12/01	07/12/06
46_967	ALMO WIRE & CABLE	PA	BROWN	CBL2783	$274,000.00	SB	10/18/02	10/17/07
46_465	KASBAR NATIONAL	PA	CARLOCK	FAB9367/9366	$1,276,054.40	SB	07/23/01	07/12/04
46_1202	DIVERSIFIED MARKET.	PA	CARLOCK	VARIOUS FABRIC	$591,957.00	SB	05/16/03	05/15/05
46_1293	OLYMPIC STEEL	PA	CALABRO	COIL/SHEET STEEL	$875,427.10	LB	08/28/03	08/28/04
46_679	SPECIALTY PROD.	PA	CAVANAUGH	FIBERGLASS	$3,369,953.40	SB	01/17/02	01/17/07
46_515	KASBAR NATIONAL	PA	CARLOCK	FAB9731	$852,035.00	SB	09/19/01	09/11/04
46_784	ATD AMERICAN	PA	RHINEHART	MOMIE CLOTH	$206,850.00		04/29/02	04/28/05
46_1250	WHELAND LUMBER	PA	ROBINSON, D.	LUMBER	$1,900,815.00	SB	07/03/03	07/02/06
TOTAL ACTIVE CONTRACTS:	***58***			***TOTAL GROUP***	***$77,987,649.56***			

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STATE: RI								
46_342	AMERICAN INSUL. WIRE	RI	BROWN	CBL2314/5374	$247,821.75	SB	03/20/01	03/19/06
1PI-C-4479-00	DURO INDUSTRIES	RI	CARLOCK	PFU JACKETS	$468,635.95	SB	02/03/00	02/03/05
46_795	UVEX SAFETY INC.	RI	CALABRO	SAFETY	$4,000,000.00	SB	04/26/02	05/25/07
46_1302	TEXCEL, INC.	RI	CARLOCK	WEBBING	$160,241.00	SB	10/01/03	09/30/05
46_456	AMERICAN INSUL. WIRE	RI	BROWN	MIL5756	$24,164.00	SB	07/25/01	07/24/06
TOTAL ACTIVE CONTRACTS:	*5*			*TOTAL GROUP*	*$4,900,862.70*			

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: SC								
46_893	PROTECTIVE PLASTICS	SC	ROBINSON, D.	STRETCH WRAP	$221,004.16	SB	07/19/02	07/22/04
46_1370	SOUTHWEST TEXTILES	SC	LEE	YARN	$2,564,800.00	SB	01/09/04	01/08/07
46_567	SPRINGFIELD	SC	CARLOCK	FAB2925/3204	$1,165,900.00	LB	10/01/01	09/28/04
TOTAL ACTIVE CONTRACTS:	***3***			***TOTAL GROUP***	***$3,951,704.16***			

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CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: SD								
46_1253	FOREST PRODUCT DIST.	SD	ROBINSON, D.	LUMBER	$507,150.00	SB	07/03/03	07/02/06
TOTAL ACTIVE CONTRACTS:	***1***			***TOTAL GROUP***	***$507,150.00***			

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STATE: TN								
46_1444	JONES FIBER PRODUCTS	TN	LEE	BATTING	$2,103,600.00	SB	03/23/04	03/23/05
46_761	DUNLAP INDUSTRIES	TN	RHINEHART	LINER & ELASTIC	$285,422.08	SB	03/18/02	03/17/05
46_1146	TEX-TENN CORP.	TN	RHINEHART	FAB7022	$1,187,500.00	SBWO	03/26/03	04/21/06
46_401	GRAYBAR ELECT.	TN	ODOM	CBL8377	$881,460.00	LB	05/21/01	05/21/06
46_1389	WILLIAMS SALES INC.	TN	RHINEHART	VARIOUS	$137,803.00	SB	01/15/04	04/15/04
46_700	DUNLAP INDUSTRIES	TN	CARLOCK	ZIP1462/1464	$75,729.00	SB	02/06/02	02/02/05
TOTAL ACTIVE CONTRACTS:	***6***			***TOTAL GROUP***	***$4,671,514.08***			

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STATE: TX								
46_904	RHIMCO	TX	BROWN	CAP0380/SKT0014	$1,894,598.00	SB	08/02/02	08/01/07
46_904	RHIMCO	TX	BROWN	CAP0380/SKT0014	$1,894,598.00	SB	08/02/02	08/01/07
46_897	BTB TRADING, INC.	TX	CARLOCK	VARIOUS	$11,276,625.00	SB	07/26/02	07/25/05
46_1089	CONNER INDUSTRIES	TX	CAVANAUGH	PLYWOOD	$368,376.20	SB	02/20/03	02/20/08
46_1260	LEGEND ELECTRONICS	TX	MCPHERSON	ELECT	$324,475.60	SB/W	07/16/03	07/16/07
46_553	SOUTHWEST DECOR	TX	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
46_864	KEMP-MEEK MFG.	TX	BROWN	CTR2355	$282,520.00	SB	07/02/02	07/01/05
46_911	ANDY'S AUTO AIR & SUPPLY	TX	MCPHERSON	AIR	$118,175.00	SB	08/07/02	08/06/05
46_339	DIAL SUPPLY & MFG CO	TX	STONE	SLV4151	$196,800.00	SB	03/02/01	03/02/05
46_494	SOUTHWEST TEXTILES	TX	BARNESLEE	YRN0014/0015	$4,141,200.00	LB	08/15/01	08/01/04
46_1018	WARD FOREST PROD.	TX	ROBINSON, D.	LUMBER	$379,746.84	SB	11/22/02	11/21/05
46_657	M & D DISTRIBUTORS	TX	MCPHERSON	WAREHOUSE	$43,266,749.52	SB	12/14/01	12/13/05
46_822	TRINITY ELECTRONICS	TX	MCPHERSON	SEMICONDUCTO	$240,084.00	SB/W	05/24/02	05/24/06
46_232	FIBER SYSTEMS INTER.	TX	STONE	CTR19223	$3,600,000.00	SB	01/02/01	01/01/06
46_1276	ALAMO MOBILITY INC.	TX	MCPHERSON	AHW0783/LOX0034	$307,500.00	SB	07/30/03	07/29/06
46_368	TEMPLE-INLAND	TX	CAVANAUGH	PARTICLEBOARD	$4,733,500.00	SB	05/15/01	04/30/06
46_844	RHIMCO	TX	BROWN	CTR3574	$215,000.00	SB	06/07/02	06/07/07
46_741	BTB TRADING, INC.	TX	CARLOCK	FAB1394	$227,340.00	SB	02/28/02	02/28/05
46_1418	INDUSTRIAL DIESEL	TX	MCPHERSON	REBUILDS	$144,500.00	SB	11/30/99	11/18/04
46_849	BTB TRADING, INC.	TX	LEE	SHEETING,	$117,900.00	SB	06/14/02	06/13/05
46_603	BTB TRADING, INC.	TX	CARLOCK	FAB9358	$371,250.00	SB	10/24/01	10/23/04
1PI-C-4394-00	BEN'S ALTERNATOR	TX	MCPHERSON	REBUILDS	$181,750.00	SDB	11/30/99	11/18/04
46_532	RHIMCO	TX	ODOM	SKT0008	$393,750.00	SB	09/19/01	09/18/06

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46_794	BTB TRADING, INC.	TX	RHINEHART	POPLIN/TWILL	$2,867,386.00	SB	05/02/02	05/01/05
46_1299	EQUITY DEVELOPMENT CORP.	TX	MERRION	LEASE	$26,400.00	LB	09/03/03	09/30/04
1PI-C-4360-00	AUTO BUS & TRUCK AIR	TX	MCPHERSON	MNT0137/0138	$1,115,000.00	SB	10/14/99	10/14/04
46_535	STOCKTON TELECOM	TX	ODOM	CIB0176	$95,113.00	SB	09/19/01	09/18/06
46_588	TEXLOC	TX	STONE	SLV3581	$485,000.00	SB	10/19/01	10/19/06
46_517	DAVE SCHICK ENTER.	TX	MCPHERSON	VARIOUS WIRE	$233,843.00	SB/W	09/07/01	09/07/06
46_410	CONTROLLED SYSTEMS	TX	ODOM	CBL6406	$366,000.00	SB	05/21/01	05/21/06
46_1156	VERNA MELTONS GRAPHIC	TX	RHINEHART	BOXES	$438,500.00	SB	04/01/03	05/02/08
46_570	YEATTS SERVICES, INC	TX	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
1PI-C-4395-00	BXW ELECTRICAL	TX	MCPHERSON	REBUILDS	$102,925.30	SB	11/29/99	11/18/04
46_942	TEJAS MOBILE AIR	TX	MCPHERSON	FAN9008	$60,000.00	SB	09/20/02	09/19/05
1PI-C-4391-00	RITE STRIPE	TX	MCPHERSON	HWS6008/6017	$8,037,750.00	SDB	11/18/99	11/09/04
TOTAL ACTIVE CONTRACTS:	***35***			***TOTAL GROUP***	***$88,504,355.46***			

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STATE: UT								
46_1051	MAIL-WELL ENVELOPE	UT	YOUNG	ENV0116	$189,000.00	LB	12/19/02	01/04/05
TOTAL ACTIVE CONTRACTS:	***1***			***TOTAL GROUP***	***$189,000.00***			

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STATE: VA

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
46_1430	BRAUN ENTERPRISES	VA	HUOTARI	CONSTRUCTION	$2,878,510.00	8(a)	02/04/04	11/05/04
46_1452	BARKER MICROFARADS	VA	ODOM	CPR0160	$216,500.00	SB	02/25/04	02/25/09
46_1443	ANIXTER WIRE & CABLE	VA	STONE	CBL1025	$1,183,000.00	LB	02/20/04	02/19/09
46_590	GENERAL CABLE INDUS.	VA	BROWN	MILJC580	$1,338,725.00	LB	10/19/01	10/19/06
46-66	GMG	VA	CAVANAUGH	CONTRACTSVC	$10,000,000.00	SB	09/30/99	09/29/09
46_1329	GENERAL CABLE	VA	BROWN	CBL1000	$479,000.00	LB	11/04/03	11/03/08
46_457	GENERAL CABLE/CAROL	VA	STONE	MIL 3432	$3,125,989.47	LB	07/18/01	07/18/06
46_898	INTEGRATED TEXTILE	VA	CARLOCK	CUTTING SVCS.	$638,474.85	SB	07/31/02	07/30/04
46_233	OPTICAL CABLE CORP.	VA	STONE	CBL7012	$9,945,000.00	SB	01/02/01	01/01/06
46_805	APPLIED TECH. GROUP	VA	STONE	BRACKETS/PLATES	$897,235.00	SBVT	05/03/02	05/03/05
46_770	MPSC	VA	STONE	CTR15565	$855,510.00	SDB	03/26/02	03/26/07
46_341	GENERAL CABLE/CAROL	VA	BROWN	CBL2488	$234,020.00	LB	03/20/01	03/19/06
46_187	RUBBERMAID COMM PROD	VA	JOHNSON	CRUTCH/WALKER	$553,340.00	LB	10/26/00	10/26/05
46-54	GMIC	VA	JOHNSON	LEASE	$1.00	SB	04/05/00	04/05/05
1PI-C-4102-99	CAROL CABLE	VA	BROWN	CBL-2712/3940	$314,223.20	LB	05/11/99	05/11/04
46_446	GENERAL CABLE/CAROL	VA	BROWN	CBL1877/2488	$4,923,750.00	LB	07/02/01	07/02/06
46_1179	MATERIAL HANDLING SUPPLY	VA	MCPHERSON	SWH0027/TML5580	$250,000.00	SB	04/17/03	04/16/05
46_451	GENERAL CABLE INDUS.	VA	BROWN	MIL5756	$282,462.00	LB	07/25/01	07/24/06
46_1182	MATERIAL HANDLING SUPPLY	VA	MCPHERSON	SWH0027/TML5580	$250,000.00	SB/W	04/17/03	04/16/08
46_562	GENERAL CABLE	VA	BROWN	CBL4147	$21,075.00	SB	10/04/01	10/03/06
46_541	WYTHE CONTRACT SALES	VA	BARNES	DRAPE PARTNER.	$0.00	SB	10/11/01	10/10/06
46_1315	GENERAL CABLE	VA	BROWN	CBL0142	$395,100.00	LB	10/02/03	10/01/06
46_413	GENERAL CABLE INDUS.	VA	ODOM	MIL13486	$371,825.00	LB	05/29/01	06/07/06

UNICOR PROCUREMENT BRANCH
AWARDS REGISTER
ACTIVE CONTRACTS BY STATE
Effective: 04/05/04

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
TOTAL ACTIVE CONTRACTS:	***23***			***TOTAL GROUP***	***$39,153,740.52***			

UNICOR PROCUREMENT BRANCH
AWARDS REGISTER
ACTIVE CONTRACTS BY STATE
Effective: 04/05/04

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: VT								
46_402	WHITNEY BLAKE	VT	ODOM	CBL6973/0157	$410,150.00	LB	05/21/01	05/21/06
46_925	WHITNEY BLAKE	VT	BROWN	CRD0109	$233,200.00	SB	08/29/02	08/28/07
46_624	WHITNEY BLAKE	VT	ODOM	CBL0305	$36,750.00	SB	11/13/01	11/12/06
46_374	WHITNEY BLAKE	VT	ODOM	CBL8300	$149,600.00	SB	04/18/01	04/19/06
46_1384	WHITNEY BLAKE	VT	BROWN	CBL5700	$440,000.00	SB	01/13/04	01/12/09
TOTAL ACTIVE CONTRACTS:	***5***			***TOTAL GROUP***	***$1,269,700.00***			

UNICOR PROCUREMENT BRANCH
AWARDS REGISTER
ACTIVE CONTRACTS BY STATE
Effective: 04/05/04

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: WA								
46_890	INDUSTRIAL RUBBER	WA	CAVANAUGH	SILK FILM	$43,400.00	SB	07/17/02	07/16/07
46_825	AMERCARE PRODUCTS	WA	YOUNG	ADMIN KITS	$12,400.00	WOSB	05/24/02	05/24/05
46_824	AMERICAN AMENITIES	WA	JOHNSON	ADMIN KITS	$1,044,669.50	SB	05/24/02	05/24/05
TOTAL ACTIVE CONTRACTS:	***3***			***TOTAL GROUP***	***$1,100,469.50***			

UNICOR PROCUREMENT BRANCH
AWARDS REGISTER
ACTIVE CONTRACTS BY STATE
Effective: 04/05/04

CONTRACT #	CONTRACTOR	STATE	CONTRACTING OFFICER	COMMODITY	ESTIMATED MAX AMOUNT	BUSINESS CATEGORY	AWARD DATE	CONTRACT TERM
STATE: WI								
1PI-C-3378-98	CORPRO	WI	CAVANAUGH	MOLDED	$238,706.00	SB	10/17/97	03/20/05
46_780	FILTRATION SERVICES	WI	CALABRO	FILTER EQUIP	$15,000,000.00	SB	04/08/02	02/01/07
46_668	FIBERSIN INDUST	WI	ROBINSON, D.	FIBERSIN BOARD	$1,000,000.00	SB	01/02/02	01/02/07
46_485	RAYOVAC	WI	STONE	BTT0001	$990,000.00	LB	08/10/01	08/07/06
46_802	KRUEGER INTERNATION.	WI	CAVANAUGH	STACKING CHAIRS	$11,470,000.00	LB	05/03/02	06/20/07
46_409	SENTINEL, LLC	WI	CALABRO	FENCING	$29,000,000.00	SB	06/11/01	06/11/11
46_362	KRUEGER INTERNATION.	WI	ROBINSON, D.	DESK BASE SVC.	$0.00	LB	03/29/01	09/29/08
46_140	KRUEGER INTERNATION.	WI	CAVANAUGH	PERETTI CHAIR	$49,039,600.00	LB	08/11/00	08/10/05
46_335	KRUEGER INTERNATION.	WI	ROBINSON, D.	DESK BASE SVC.	$0.00	LB	03/08/01	09/29/08
1PI-C-3551-99	KRUEGER INTERNATION.	WI	ROBINSON, D.	DESK BASE	$500,000,000.00	LB	09/28/98	09/29/08
46_193	FIBERSIN INDUST	WI	ROBINSON, D.	MICRO	$715,500.00	SB	11/06/00	11/15/05
1PI-C-4510-00	LAW TANNING	WI	BARNES	LEA0002/0021	$13,000.00	SB	02/24/00	02/23/05
46_1205	POW'R GARD GEN CORP	WI	ODOM	CBA0858	$55,147,000.00	SB	05/13/03	11/24/07
46_1052	HENTZEN COATING, INC	WI	MCPHERSON	PNT0752	$94,640.00	SB	12/19/02	12/19/04
46_1147	WESTERN STATES ENVELOPE	WI	YOUNG	ENV0004	$2,010,764.62	LB	03/18/03	03/18/05
46_334	KRUEGER INTERNATION.	WI	ROBINSON, D.	DESK BASE SVC.	$0.00	LB	03/08/01	09/29/08
TOTAL ACTIVE CONTRACTS:	***16***			***TOTAL GROUP***	***$664,719,210.62***			

UNICOR PROCUREMENT BRANCH
AWARDS REGISTER
ACTIVE CONTRACTS BY STATE
Effective: 04/05/04

CONTRACT #	CONTRACTOR	STATE	CONTRACTING	COMMODITY	ESTIMATED MAX	BUSINESS	AWARD	CONTRACT
STATE: WV								
46_1369	BRAUN ENTERPRISES	WV	HUOTARI	DESIGN/BUILD	$1,100,000.00	8(a)	12/24/03	09/30/04
TOTAL ACTIVE CONTRACTS:	*1*			*TOTAL GROUP*	*$1,100,000.00*			

II

108TH CONGRESS
1ST SESSION

S. 346

To amend the Office of Federal Procurement Policy Act to establish a governmentwide policy requiring competition in certain executive agency procurements, and for other purposes.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 11, 2003

Mr. LEVIN (for himself and Mr. THOMAS) introduced the following bill; which was read twice and referred to the Committee on Governmental Affairs

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A BILL

To amend the Office of Federal Procurement Policy Act to establish a governmentwide policy requiring competition in certain executive agency procurements, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. GOVERNMENTWIDE PROCUREMENT POLICY RELATING TO PURCHASES FROM FEDERAL PRISON INDUSTRIES.

(a) REQUIREMENTS.—The Office of Federal Procurement Policy Act (41 U.S.C. 403 et seq.) is amended by adding at the end the following new section:

"SEC. 40. GOVERNMENTWIDE PROCUREMENT POLICY RELATING TO PURCHASES FROM FEDERAL PRISON INDUSTRIES.

"(a) COMPETITION REQUIRED.—In the procurement of any product that is authorized to be offered for sale by Federal Prison Industries and is listed in the catalog published and maintained by Federal Prison Industries under section 4124(b) of title 18, United States Code, the head of an executive agency shall, except as provided in subsection (d)—

"(1) use competitive procedures for entering into a contract for the procurement of such product, in accordance with the requirements applicable to such executive agency under sections 2304 and 2305 of title 10, United States Code, or sections 303 through 303C of the Federal Property and Administrative Services Act of 1949 (41 U.S.C. 253 through 253c); or

"(2) make an individual purchase under a multiple award contract in accordance with competition requirements applicable to such purchases.

"(b) OFFERS FROM FEDERAL PRISON INDUSTRIES.—In conducting a procurement pursuant to subsection (a), the head of an executive agency shall—

"(1) notify Federal Prison Industries of the procurement at the same time and in the same manner as other potential offerors are notified; and

"(2) consider a timely offer from Federal Prison Industries for award in the same manner as other offers (regardless of whether Federal Prison Industries is a contractor under an applicable multiple award contract).

"(c) IMPLEMENTATION BY AGENCIES.—The head of each executive agency shall ensure that—

"(1) the executive agency does not purchase a Federal Prison Industries product or service unless a contracting officer of the executive agency determines that the product or service is comparable to products or services available from the private sector that best meet the executive agency's needs in terms of price, quality, and time of delivery; and

"(2) Federal Prison Industries performs its contractual obligations to the executive agency to the same extent as any other contractor for the executive agency.

"(d) EXCEPTION.—(1) The head of an executive agency may use procedures other than competitive procedures to enter into a contract with Federal Prison Industries only under the following circumstances:

"(A) The Attorney General personally determines in accordance with paragraph (2), within 30 days after Federal Prison Industries has been informed by the head of that executive agency of an opportunity for award of a contract for a product, that—

"(i) Federal Prison Industries cannot reasonably expect fair consideration in the selection of an offeror for award of the contract on a competitive basis; and

"(ii) the award of the contract to Federal Prison Industries for performance at a penal or correctional facility is necessary to maintain work opportunities not otherwise available at the penal or correctional facility that prevent circumstances that could reasonably be expected to significantly endanger the safe and effective administration of such facility.

"(B) The product is available only from Federal Prison Industries and the contract may be awarded under the authority of section 2304(c)(1) of title 10, United States Code, or section 303(c)(1) of the Federal Property and Administrative Services Act of 1949 (41 U.S.C. 253(c)(1)), as may be applicable, pursuant to the justification and approval require-

ments relating to noncompetitive procurements specified by law and the Federal Acquisition Regulation.

"(C) The head of the executive agency determines that the product that would otherwise be furnished is to be produced, in whole or in significant part, by prison labor outside the United States.

"(2)(A) A determination made by the Attorney General regarding a contract pursuant to paragraph (1)(A) shall be—

"(i) supported by specific findings by the warden of the penal or correctional institution at which a Federal Prison Industries workshop is scheduled to perform the contract;

"(ii) supported by specific findings by Federal Prison Industries regarding the reasons that it does not expect to be selected for award of the contract on a competitive basis; and

"(iii) made and reported in the same manner as a determination made pursuant to section 303(c)(7) of the Federal Property and Administrative Services Act of 1949 (41 U.S.C. 253(c)(7)).

"(B) The Attorney General may not delegate to any other official authority to make a determination that is required under paragraph (1)(A) to be made personally by the Attorney General.

"(e) PERFORMANCE AS A SUBCONTRACTOR.—(1) A contractor or potential contractor under a contract entered into by the head of an executive agency may not be required to use Federal Prison Industries as a subcontractor or supplier of products or provider of services for the performance of the contract by any means, including means such as—

"(A) a provision in a solicitation of offers that requires a contractor to offer to use or specify products or services of Federal Prison Industries in the performance of the contract;

"(B) a contract clause that requires the contractor to use or specify products or services (or classes of products or services) offered by Federal Prison Industries in the performance of the contract; or

"(C) any contract modification that requires the use of products or services of Federal Prison Industries in the performance of the contract.

"(2) A contractor using Federal Prison Industries as a subcontractor or supplier in furnishing a commercial product pursuant to a contract of an executive agency shall implement appropriate management procedures to prevent an introduction of an inmate-produced product into the commercial market.

"(3) In this subsection, the term 'contractor', with respect to a contract, includes a subcontractor at any tier under the contract.

"(f) PROTECTION OF CLASSIFIED AND SENSITIVE INFORMATION.—The head of an executive agency may not enter into any contract with Federal Prison Industries under which an inmate worker would have access to—

"(1) any data that is classified or will become classified after being merged with other data;

"(2) any geographic data regarding the location of—

"(A) surface or subsurface infrastructure providing communications or water or electrical power distribution;

"(B) pipelines for the distribution of natural gas, bulk petroleum products, or other commodities; or

"(C) other utilities; or

"(3) any personal or financial information about any individual private citizen, including information relating to such person's real property however described, without the prior consent of the individual.".

(b) CLERICAL AMENDMENT.—The table of contents in section 1(b) of such Act is amended by adding at the end the following new item:

"Sec. 40. Governmentwide procurement policy relating to purchases from Federal Prison Industries.".

SEC. 2. CONFORMING AMENDMENTS.

(a) REPEAL OF INCONSISTENT REQUIREMENTS APPLICABLE TO DEPARTMENT OF DEFENSE.—(1) Section 2410n of title 10, United States Code, is repealed.

(2) The table of sections at the beginning of chapter 141 of such title is amended by striking the item relating to section 2410n.

(b) REPEAL OF INCONSISTENT REQUIREMENTS APPLICABLE TO OTHER AGENCIES.—Section 4124 of title 18, United States Code, is amended—

(1) by striking subsections (a) and (b) and redesignating subsections (c) and (d) as subsections (a) and (b), respectively; and

(2) in subsection (a), as redesignated by paragraph (1), by striking "Federal department, agency, and institution subject to the requirements of subsection (a)" and inserting "Federal department and agency".

(c) OTHER LAWS.—(1) Section 3 of the Javits-Wagner-O'Day Act (41 U.S.C. 48) is amended by striking

"which, under section 4124 of such title, is required" and inserting "which is required by law".

(2) Section 31(b)(4) of the Small Business Act (15 U.S.C. 657a(b)(4)) is amended by striking "a different source under section 4124 or 4125 of title 18, United States Code, or the Javits-Wagner-O'Day Act (41 U.S.C. 46 et seq.)" and inserting "a different source under the Javits-Wagner-O'Day Act (41 U.S.C. 46 et seq.) or Federal Prison Industries under section 40(d) of the Office of Federal Procurement Policy Act or section 4125 of title 18, United States Code".

SEC. 3. UNLAWFUL TRANSPORTATION OR IMPORTATION OF PRODUCTS, SERVICES, OR MINERALS RESULTING FROM CONVICT LABOR.

Section 1761 of title 18, United States Code, is amended—

(1) in subsection (a), by inserting after "any goods, wares, or merchandise manufactured, produced, or mined, wholly or in part by convicts or prisoners," the following: "or sells in interstate commerce any services furnished wholly or in part by convicts or prisoners,"; and

(2) in subsection (c), by inserting ", or services furnished," after "or mined" in the matter preceding paragraph (1).

SEC. 4. EFFECTIVE DATE.

The amendments made by this Act shall take effect 180 days after the date of the enactment of this Act.

Statement
of
Pete Hoekstra
United States Representative, Second District of Michigan

Before
Subcommittee on Financial Management,
the Budget, and International Security
Committee on Governmental Affairs
United States Senate

Legislative Hearing on S. 346, a Bill to Amend the Office of Federal Procurement Policy Act to Establish a Government-wide Policy Requiring Competition in Certain Procurements from Federal Prison Industries

April 7, 2004

Chairman Fitzgerald, I thank you for scheduling today's legislative hearing on S. 346, a bipartisan bill sponsored by the senior Senator from Michigan (Mr. Levin), with Senator Thomas of Wyoming, the Senate's leading opponent of unfair Government competition with the private sector, as the principal cosponsor.

Mr. Chairman, Senator Akaka, and Members of the Subcommittee, I would request that my statement be made a part of the record of today's hearing.

Federal Prison Industries, Inc. (FPI) continues to be one of the worst examples of unfair Government competition with the private sector. Through its status as a mandatory source of supply, FPI is able to deprive non-inmate workers, and the firms that employ them, from even being able to bid on more than a half a billion dollars in Federal business opportunities, funded with their tax dollars. Law-abiding private sector workers are deprived of being able to compete for job opportunities to guarantee work for Federal inmates.

FPI's federal agency "customers" are also victims under the system authorized by FPI's Depression-era authorizing statute. FPI, rather than the buying agency, has the power to determine whether FPI's offered product and delivery schedule best meets the mission needs of the buying agency. FPI, rather than the buying agency, determines the reasonableness of the price that the buying agency will have to pay to FPI. Under this archaic system, a buying agency must actually obtain FPI's permission, a so-called waiver, to be able to get the maximum value for the taxpayer dollars being expended. Whether to grant a waiver is FPI's sole decision.

FPI's authorizing statute permits FPI to bypass the competitive contracting processes that underpin the Federal procurement process. The statutory basis for the system is the landmark Competition in Contracting Act of 1984, which originated in this Committee under the sponsorship of Senator Levin and the former Senator from Maine, Senator Bill Cohen.

S. 346 empowers contracting officers of the various Federal agencies to make independent business judgements regarding the FPI-offered product, proposed delivery schedule, and proposed pricing. It prudently empowers them to compare FPI's offerings with the offerings of private sector vendors. If the buying agency determines that FPI's offered product, proposed delivery schedule, and proposed pricing best meet the buying agency's needs, then the purchase is made from FPI pursuant to FPI's statutory preference. If FPI's offerings are determined by the buying agency not to meet the standard, then the procurement is conducted on a competitive basis. S. 346 requires the buying agency to solicit an offer from FPI and evaluate any offer submitted by FPI against the same standards used to evaluate offers from private sectors vendors.

The use of competitive procurement techniques to obtain goods and services, rather than relying on non-competitive contract awards, have been consistently shown to result in substantial savings in acquisition costs. Such savings have been estimated at between 10 and 30 percent. This standard was first established through the extensive work done by the General Accounting Office (GAO) during the mid-1980s in response to the cases of egregious spare parts overpricing confronted by the Department of Defense (DOD). The benefits of competitive acquisition techniques have been consistently validated through subsequent work by GAO and by the various Inspectors General (IG) of the large buying agencies, most notably the DOD IG.

With FPI's annual "sales" approaching $700 million, such projected savings in acquisition costs cannot simply be ignored. Use of competitive procedures have also been shown to result in very valuable, but less easily quantified, improvements in the quality of products furnished and the speed of their delivery.

As you consider S. 346, keep in mind that to the extent that FPI fails to provide to a buying Federal agency the product that best meets the buying agency's needs, timely delivered, at something approximating a fair market price, then the buying agency is unwillingly subsidizing FPI's operations. The non-competitive award of contracts to FPI pursuant to its mandatory source status merely enables FPI to expropriate to its use a portion of the funds specifically appropriated by the Congress for the use of the

buying Federal agency to perform its mission on behalf of the American people. Without being subject to competition, the assertion that FPI is "self-supporting" is simply a baseless slogan. FPI does not need to receive its own appropriations because its statutorily-based mandatory source status authorizes FPI to take money freely from its captive Federal agency "customers."

Keep these facts in mind when you hear complaints about the "sales" FPI has recently "lost, " due to recent limitations on the abusive use of its mandatory source status. What FPI is actually losing is the ability to wantonly subsidize its operations from funds appropriated to its captive Federal agency "customers.

FPI's current mandatory source status is little more than a license to steal. Steal money from its captive Federal agency "customers" and steal the work opportunities provided by federal contracts from non-inmate workers and the firms that employ them.

S. 346 is based on existing law. It is based on Section 2410n of Title 10, United States Code, which was added to the statutes that guide the DOD procurement process by Section 811 of Public Law 107-107, the **NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2002.** The provision that became Section 811 was sponsored by Senator Levin, then Chairman of the Senate Armed Services Committee, and supported by Senator John Warner, then the Committee's Ranking Republican Member. Efforts to strike the provision were vigorously opposed by Senator Levin, Senator Warner, and Senator Thomas. The effort to delete it was soundly defeated on a rollcall vote of 74 to 24 (Rollcall Vote No. 287, 107th Cong.). Subsequently, the then Director of the Office of Management and Budget, Mitch Daniels, wrote: "The Administration supports the version of Section [811] as passed by the Senate." The Administration "believes that all Federal agencies should have the flexibility through competition to purchase quality goods and services at fair and reasonable prices with the expectation of timely performance." (Letter to Hon. Mac Collins; October 24, 2001).

S. 346 does just that. The bill gives all Federal agencies the ability to get maximum value for the taxpayer dollars being expended in their dealings with FPI.

Earlier this year, the President signed the **CONSOLIDATED APPROPRIATIONS ACT, 2004**, P.L. 108-199. It contains a provision which extends to the contracting officers of the various Civilian agencies during Fiscal Year 2004 the authorities available to DOD contracting officers pursuant to Section 2410n. The Administration did not raise any objections to this provision.

Specifically, Section 637 of Division F (Transportation, Treasury, and Independent Agencies Appropriations, 2004) of P.L. 108-99 prohibits the expenditure of funds appropriated "by this or any other Act for fiscal year 2004" for the purchase of a product or service offered by FPI, unless the agency making such purchase determines that the FPI-offered product or service represents the best value, pursuant provisions of the Government-wide Federal Acquisition Regulation (FAR) that impose the procedures, standards, and limitations of Section 2410n. The FAR coverage was published in the FEDERAL REGISTER on March 26, 2004 (69 Fed. Reg. 16148).

In many ways, S. 346 simply makes permanent the prudent procurement procedures that are currently in place on a Government-wide basis.

I expect that today's witnesses opposed to S. 346 will raise a number of arguments, which we in the House have heard many times before. Let me discuss a few of them with you.

Some of today's witnesses will certainly cite lost sales and layoffs which FPI has suffered in FY 2003 due to Section 2410n. Putting those assertions in context seems appropriate.

Although FPI's Annual Report to the Congress has not been submitted for FY 2003, the report of FPI's auditors, Pricewaterhouse Coopers, LLP, submitted on November 11, 2003, was just released. It shows that FPI had a very good year in FY 2003. Sales are up in five of FPI's eight "Business Groups."

Within the Electronics Business Group revenues increased substantially to $152.4 million, up from $132.7 million in FY 2002. I suspect that most of these increased "sales" are purchases by DOD required by military operations in Iraq. For example, FPI continues to obtain tens of millions of dollars in "sales" through non-competitive orders under a requirements-type contract non-competitively awarded by the Army Materiel Command's Communications and Electronics Command in 1998, which bypasses the requirements of Section 2410n for the duration of the contract, which runs until 2013. This is but one example.

"Sales" within FPI's Fleet Management and Vehicular Components Business Group also increased substantially in FY 2003 to $123.3 million from $99 million in FY 2002. Again, I suspect that much of this increase can be attributed to demands relating to military operations in Iraq. Part of the increase can also be attributed to continued

expansion of FPI's venture to have Federal inmates remanufacture automobile components for the commercial market. This foray into the commercial market is being undertaken without an express statutory authority and in contravention of long-standing statutory prohibitions on allowing the results of inmate labor to be introduced into interstate commerce.

FY 2003 was also a year of growth for FPI's Industrial Products Business Group. Revenues increased to $36.8 million in FY 2003, up from $27.8 million in FY 2002.

FPI's Recycling Business Group also saw substantially increased "sales" in FY 2003, increasing to $8.1 million from $3.4 million in FY 2002. This business group focuses principally on demanufacturing of computers, monitors, and related equipment. The major increase is likely attributable to work being done for non-Federal agency customers. Under FPI's self-generated authority to provide inmate-furnished services in the commercial market, FPI has been aggressively marketing its recycling services to local governments and private firms.

During FY 2003, FPI's Services Business Group showed only a small increase, with $12.3 million in revenues, up from $12.2 million in the prior fiscal year. This FPI Business Group offers a broad array of commercial-type services from simple data entry, to digitalization of paper documents, and to laundry services. This Business Group is also vigorously pursuing work for the commercial market.

FPI cannot compel a Federal agency to purchase services because FPI's mandatory source status only applies to the products that it offers. This does not mean that FPI actually competes for its "sales" in services, as it often asserts. Rather, its "sales" are negotiated on a non-competitive basis as an "intra-governmental transfer." Private sector service providers are still foreclosed from being able to compete for these Federal business opportunities.

Now, let's take a look at the three FPI Business Groups that had reduced revenues in FY 2003.

The first was the Clothing and Textiles Business Group, which showed slightly reduced revenues of $158.4 million in FY 2003, down from $159.7 million in FY 2002.

This is notable because most of FPI "sales" within this business group are mostly to DOD, principally military clothing and related textile-based military equipment.

Such purchases increased dramatically due to the demands associated with increased military operations, principally in Iraq. These purchases are subject to the requirements of Section 2410n and DOD managers have made especially good use of the new authority. The DOD product managers continue to use FPI when it makes good business sense, but enables them to make awards that sustain the few remaining small businesses that comprise the industrial base for military clothing and textiles. I suspect that FPI still remains the largest single supplier of these items to DOD, and that with $158.4 million in "sales," FPI remains larger than the combined sales of the next five largest private-sector suppliers to DOD.

The Graphics Business Group showed a more significant reduction in FY 2003, with revenues of $23.7 million compared with $26 million in FY 2002.

The Graphics Business Group provides printing services, signage, and awards, plaques, and other logo-bearing items to Federal agency customers. I suspect that some of this reduction can be attributed to DOD buyers making use of the Section 2410n authority to get maximum value on their purchases.

The Office Furniture Business Group showed the largest reduction in FPI revenues between FY 2003 and the prior fiscal year. FPI reported that its "sales" were down to $152 million in FY 2003 from an all-time high of $217.8 million in FY 2002, which the industry believes substantially understates FPI actual revenues. The products of this business group include a broad range of dormitory and quarters furniture as well as the full range of office furniture and associated products.

The lost "sales" by the Office Furniture Business Group are, to me, a confirmation of what the Federal Prison Industries Competition in Contracting Coalition has been saying all along: FPI is not the "supplier of choice" to the Federal agencies, only the mandated supplier. DOD buying agencies are using the Section 2410n authorities to competitively obtain the best products that the marketplace has to offer.

The Director of the Federal Bureau of Prisons and others will certainly cite the benefits of inmate work programs in reducing rates of recidivism as well as their value in helping combat idleness and its attendant problems.

Prison systems at all levels use work opportunities to combat idleness and to impart basic work skills that contribute to an inmate's successful return to society upon release. In the Federal Bureau of Prisons (BOP), as in most state prison systems, the

vast majority of inmates work at jobs directly related to the operation and maintenance of the correctional facility. Work assignments encompass the full gamut of activities providing necessary services, such as helping to operate kitchens and laundries, helping with plumbing and electrical repairs, performing carpentry, painting, and groundskeeping to help maintain the Federal correctional institution.

A much smaller percentage of inmates have work assignments in prison industry programs, which assemble products or furnish services which are generally sold exclusively to governmental agencies. Within the Federal system in FY 2003, 16 percent of the inmates work for FPI. The remaining 84 percent of able-bodied inmates are engaged in institutional work assignments.

The opponents of change often assert that participating in FPI helps reduce recidivism. The data underlying that assertion is drawn from the Post Release Employment Project (PREP) study. Beginning in 1983, BOP has conducted a on-going study of the effects of vocational training and inmate work experiences on post-release success. The most recent analysis of the PREP data covering 1984 through 1987, issued in 1997, shows that work experiences have a positive effect on post-release employment success, resulting in a 24% reduction in recidivism. They forget to mention that the same PREP data showed that vocational and remedial education programs have even a more positive effect on reducing recidivism, resulting in a 33% reduction in recidivism. Similarly, such educational programs also help combat idleness.

Keep in mind that the PREP study does not confirm any rehabilitative benefit to the inmate associated with the corrosive manner in which FPI can treat its captive Federal agency "customers." While FPI's mandatory source status may guarantee a steady stream of work, it deprives the Federal agencies of being able to assure themselves that they are getting full value for the taxpayer dollars being paid to FPI.

Further, to maximize its revenues and quiet Federal "customer" dissatisfaction, FPI is increasingly relying on contractual "Partners." For many commercial-type items, FPI inmate workers are now simply assembling complete finished kits produced by one of these contract suppliers. Quality and timeliness of delivery are both improved to the extent that the inmates' participation in the manufacturing of a product is reduced. Such programmatic shift, however, calls into question FPI's claimed focus on inmate rehabilitation. To those of us seeking fundamental reform, FPI seems more focused on expanding its gross profits to be used in expanding its operations.

To avoid change, others will seek to play to fear. Any change to FPI's current mandatory source status will lead to massive inmate idleness that undermines the safe operation of the Federal correctional institutions, endangering inmates and staff.

When you hear this remember the statistics about how many inmates work in institutional job assignments, 84 percent, and how many have job assignments within FPI, 16 percent. Also remember that inmates with work assignments within FPI tend to be among the best inmates from a disciplinary standpoint.

Further, keep in mind that S. 346 contains a provision which authorizes the Attorney General to take contracts on a non-competitive basis if the work provided by the contract is need to "prevent circumstances that could reasonably be expected to significantly endanger the safe and effective administration" of the institution at which the work on the contract is to be performed. To prevent abuse of this authority, the provision requires that the determination by the Attorney General be supported by specific findings by the warden of the penal institution at which the work on the contract is to be performed.

FPI's management have convinced the leadership of the Council of Prison Locals that the wardens will never provide the needed findings, because it would be viewed as a "black mark" on their record, impeding promotion. To me it is incomprehensible that a warden would take a real risk of institutional unrest that could lead to the physical harm of inmates and staff to avoid making the necessary findings to support the bill's forward-looking, judgmental standard. If that is the case, the Bureau of Prisons and the staff represented by the Council of Prison Locals have more to worry about than possible legislative changes to the workings of FPI's mandatory source status.

Opponents of change are also trying to hide behind FPI's stable of suppliers, as you will hear from one of today's witnesses. As with so many of the assertions by those opposed to change, this one also proves false when subjected to scrutiny.

With FPI operating as a prime contractor, exercising its mandatory source status, an FPI supplier has a very preferential place in the Federal procurement process. Remember what mandatory source means in practical business terms. FPI, rather than the buying agency, determines whether FPI's offered product and delivery schedule meets the agency's mission needs. FPI, rather than the buying agency, determines the reasonableness of FPI's offered price.

As a former businessman, I would like to be part of a team that can force its customers to make purchases. It gives me a guaranteed base of sales. Why would I want to relinquish such a preferred status?

However, from a public policy standpoint, FPI's mandatory source status is simply indefensible.

Under S. 346, FPI's current suppliers will be free to win Government business indirectly as a supplier to FPI or they may chose to sell directly, something which many of them already do. As is the nature of the marketplace, business will be won based on their ability to best meet the Federal agency's needs, or more accurately the taxpayers' needs, in terms of quality, delivery, and price.

Many of FPI's suppliers have reputations as highly competitive, quality performers, you will be hearing from one of them this afternoon, who was featured in a full-page ad in the September 29, 2003 issue of ***Roll Call***. Suppliers like Power Connector, Inc., successful in both the commercial market and the Government market, will be a big help to FPI in obtaining its Federal business on a competitive basis.

Further, the enactment of S. 346 will not increase or decrease the business opportunities available through purchases by the various Federal agencies. Under S. 346 assures FPI a right to compete in the Federal market, supported by its network of suppliers. In fact, the bill places an affirmative duty on a Federal agency to solicit an offer from FPI. Other prospective Government contractors, large and small, have to find their Federal contracting opportunities.

Next, you will hear about FPI's stellar performance in making contract awards to small businesses, including small businesses owned and controlled by women and minorities. FPI claims that 62 percent of its dollars are spent with small business. This seems almost too good to be true. From my experiences with FPI and their penchant for distorting data, I would make a related observation.

FPI awards its supplier contracts through a procurement method in which only FPI can challenge a bidder's certification regarding its status as a small business. Many of FPI's newest and most prominent suppliers, which FPI's refers to as its "Partners," are subsidiaries of larger corporations. A firm is not entitled to claim the status of a "small business," if such firm is the affiliate of a firm that is "other than a small business." I have sought, unsuccessfully, to obtain a list of FPI's active suppliers and

see which ones have claimed small business status. With the help of the Chairman of the House Committee on Small Business, requests could be made to the Small Business Administration to determine if there have been any false certifications.

Finally, some will assert that they are not opposed to the elimination of FPI's mandatory source status provided that the Attorney General retains the authority to maintain adequate work opportunities at Federal prisons as part of a comprehensive reform that grants the Attorney General the tools necessary to maintain prison discipline and reduce recidivism.

That legislative proposal to bring comprehensive and fundamental reform to FPI is pending before the Committee on the Judiciary. It is H.R. 1829, the Hoekstra-Frank-Collins-Maloney-Sensenbrenner-Conyers **FEDERAL PRISON INDUSTRIES COMPETITION IN CONTRACTING ACT OF 2003**, which was passed by the House by a vote of 350-65 on November 6, 2003.

Like S. 346, H.R. 1829 contains the provision that allows the Attorney General to take inmate work opportunities on a contract-by-contract basis when needed to "prevent circumstances that could reasonably be expected to significantly endanger the safe and effective administration" of the institution at which the work is to be performed. To me, that meets the requirement to "provide[s] the Attorney General with the authority to maintain adequate work opportunities at Federal prisons".

Despite the assertion that [T]he Administration is anxious to work with the Congress to develop [comprehensive] FPI reform legislation", no specific recommendations for modifying H.R. 1829 have been forthcoming from the Administration despite written requests to the President on October 17, 2002, January 30, 2003, and to the then OMB Director on March 31, 2003. Apparently, the Attorney General wants additional authorities, but they remain unknown to Congress.

In the meantime, I urge the Committee on Governmental Affairs to promptly report S. 346 and vigorously seek its consideration and passage by the Senate. It is the least we can do to bring some relief to FPI's captive Federal agency "customers," and to non-inmate workers, and the firms that employ them, that are only seeking an opportunity to bid on Federal business opportunities funded with their tax dollars.

Statement for the Record

Mark Green, United States Representative, 8th District of Wisconsin

Subcommittee on Financial Management, the Budget and International Security Committee on Governmental Affairs, United States Senate

Legislative Hearing on S. 346

April 7, 2004

Mr. Chairman, Senator Akaka and Members of the Subcommittee I would request that my statement be made a part of the record of today's hearing. I appreciate this opportunity to relay to you my concerns regarding S. 346 as the Congressman from the 8th District of Wisconsin and the impact that this legislation will have on Federal Prison Industries' (FPI) business and therefore many of my constituents who have held contracts with FPI for decades. In addition, however, I also submit my statement as a Member of the House Judiciary's Subcommittee on Crime as we have specific oversight of FPI which includes our very serious responsibility of ensuring the safety and security of all inmates and personnel in our federal prisons.

It is my understanding that the combination of an apparent lack of conformity and compliance in the application of Sections 811/819 of the DoD Authorization bill of 2002 and 2003 by the contracting officers at DoD and its general affect of curtailing the use of FPI's mandatory source by federal agencies are causing serious downturns in FPI's backlog orders and therefore inmate employment levels. This is of great concern to me as the Bureau of Prisons has repeatedly testified before Congress that FPI is one of its most critical correctional tools for managing our federal prisons and protecting both the inmates and our federal employees. If FPI is in danger of an inability to maintain its current inmate employment levels and the work program, generally, I would like to know why and help to correct this. As a Member of the

Subcommittee on Crime along with my other colleagues we will ultimately need to answer for any serious repercussions that may occur as a result of these downward trends. As you know, over the next five years, the federal inmate population is expected to double amidst already heavily, overcrowded conditions. This is due to the public policy changes of longer sentences coupled with the expectation that inmates be provided with opportunities that will improve their post-release success prospects as law-abiding employees.

With this backdrop, and at this time, we can ill afford any policy changes by Congress that would further aggravate an already dangerously, overcrowded situation. I understand that many of the correctional institutions are now faced with double, triple bunking and the outright, open, dormitory-style bedding that they have been forced to employ due to the overcrowding. Therefore, I think it is central to this debate that we review the positive benefits that the FPI program brings to bear on the institutions, inmates, society, the American taxpayer and the private sector. Based on testimony before Congress as well as FPI's posted annual reports we know the following:

- FPI employs approximately 25% of the eligible inmates in meaningful work which contributes significantly to the safety and security of the correctional institutions by keeping them gainfully occupied. They have found that inmates who participate in FPI are less likely to engage in prison misconduct for fear they would lose their FPI jobs which are in demand as evidenced by the waiting lists for participation in the program.

- Inmates who participate in FPI are more likely to remain crime free and employed as they have a 24% less likelihood to recidivate, even higher for minorities who are at greater risk to do so and a 14% better chance of being employed as compared to non-participating inmates. These numbers become very important to the American taxpayer

as the annual cost of incarceration of an inmate is $30,000, more than most taxpayers pay to send a child to college per year.

- FPI receives **NO** appropriated funds from Congress and **100%** of each earnings dollar is returned to the community: 74% goes to purchases from the private sector of raw materials and supplies, 20% is paid to staff and 7% is for inmate salaries that they are required to use to meet financial obligations and for commissary purchases of products supplied by local community vendors.

- FPI creates an opportunity for inmates to fulfill their court-ordered financial obligations. For instance, in 2002, inmates participating in the FPI program contributed $3.1 million for child support, victims restitution and other court ordered programs. In addition, many inmates send portions of their earnings home making the difference sometimes between a family going on welfare and one that does not.

I would submit to you that the FPI business model strikes the delicate balance between maintenance of the inmate employment levels with positive effects on the private sector. The following statistics confirm this:

- In fiscal year 2002 FPI's purchases from the private sector comprised $502 million or 74% of their overall sales. These purchases were made from over 10,000 private industry vendors from across the country in the way of equipment, supplies, raw materials and machinery. **In addition, in 2002 FPI awarded over 62 % of its contracts to small businesses** and has consistently received the Attorney General's "Best Percentage" Small Business Award in recognition of FPI's work in this area. The Office Furniture Group at

FPI alone purchased $105 million from private sector vendors, 55% of its contracts coming from small businesses.

Curtailment or elimination of the FPI program would indeed adversely impact thousands of FPI vendors throughout the nation most of whom are small businesses and rely on FPI for some portion of their business as evidenced by the above statistics. Based the statistics herein, it is clear that FPI is creating a tremendous amount of **positive** impact for many private sector businesses that otherwise may not have had similar opportunities.

The facts and statistics above, I believe, support the arguments for the maintenance of the FPI program as they demonstrate how important it is to the safety and security of the institutions, the post-release success of inmates, the American taxpayer and the private sector contractors. It is because of the benefits accruing to so many segments of our society as articulated above that I am concerned about the unintended consequences S. 346 may cause.

I commend the Chairman for holding a hearing that ensures that all interested parties have the opportunity to present their views and I am available to assist you in anyway possible. Thank you.

The Enterprise Prison Institute

6009 Selvyn Avenue, Suite 100, Bethesda, MD 20817
301/320-9180 . (fax) 301/320-9181
Krostad @ aol.com

April 5, 2004

Peter G. Fitzgerald, Chairman
Daniel A. Akaka, Ranking Member
Subcommittee on Financial Management, the Budget
and International Security
Committee on Governmental Affairs
446 Senate Hart Building
Washington, DC 20510

Gentlemen:

We write regarding S. 346. We neither support nor oppose the bill. We support the need to reform the federal industries program, and preserve opportunities for inmate training and work. With two amendments outlined below, we do support passage of the bill.

As Attorney General and Deputy Attorney General in Republican and Democratic administrations, we saw first-hand the rehabilitative impact of job training and work programs, and how real work in prison provide real jobs and success after prison. In short, these programs *work*. Therefor, the pending reform legislation before Congress (S346) is important to us.

No one questions the need for prison programs that work. Every day this year some 1600 inmates leave prison. Are they ready? In June the Department of Justice published data on recidivism rates. By following 272,111 state inmates released in 1994, researchers found that 67.5% were re-arrested within three years.

Federal Prison Industries (FPI) past achievements of providing valuable job training to inmates earned it support from Congress and Democrat and Republican administrations alike. Lately, FPI's reputation in Congress has been tarnished. Some critics claim FPI is an agency insulated by its original 1930s business model and unable to change. They say FPI has competed unfairly against businesses, displaced civilian workers, and expanded its authority without congressional approval. FPI supporters deny these charges and offer evidence that FPI has taken significant precautions to avoid harm to the private sector.

Given the importance of job training and work programs and this congressional environment, legislation must: 1) reform FPI with a job training and work model for the 21st century workplace, with real safeguards to avoid harm to American workers, and 2) allow for sufficient new job training and work. S 346 is a major step forward towards the first objectives. It does not adequately address the second.

S 346 needs two major changes. First, we should let employers – only employers that certify that they cannot find enough workers -- train and employ inmates through a limited pilot program. (This program should *not* allow FPI to sell into the commercial market.) We know manufacturing jobs have been lost to offshore locations; this pilot may, in a small way, reduce this transfer of jobs offshore.

Second, the bill may unnecessarily restrict the states in a manner that could kill many state programs, discourage new initiatives, and cost the states millions of dollars. Before passing legislation that would restrict state programs, hearings should be held. If these programs are operating effectively and consistent with accepted standards, states should be free to act.

With these changes S 346 is a winner. The amended bill preserves reforms FPI critics seek and provides training and work FPI supporters want and public safety requires.

The private sector will support the amended bill as it supports similar state pilot programs, because they can remedy a need of employers: skilled workers. A National Association of Manufacturer's report has corroborated what other researchers have concluded; even in the current environment with offshore outsourcing, we still face a significant worker skills shortages. This shortage will get worse. The Employment Policy Foundation projects growing shortages to reach 12.4 million job openings by 2021.

Taxpayers spend some $40 billion a year for prisons, and, as noted above, most inmates fail when they leave prison. Not passing S 346 as amended means not strengthening one of the very best tools we have to reduce this failure rate, to reduce crime, and to increase public safety and prison security.

While FPI is today a source of controversy in Congress, the importance of its mission has greater bi-partisan support then at any time in our memories. These programs are especially important to those who are in the greatest need: unskilled, lower income and disadvantaged individuals who disproportionately make up our inmate population.

This broad support is not new. Twenty-three years ago at the University of Nebraska Law School, Chief Justice Warren Burger laid out the case for inmate work with a powerful idea. He said, "When society places a person behind walls and bars, it has a moral obligation to do whatever can reasonably be done to change that person before he or she goes back into the stream of society."

We agree and hope the Congress will too.

Sincerely,

Edwin Meese III

Edwin Meese III
Chair, National Advisory Board

Eric Holder
Vice Chair, National Advisory Board

J. MICHAEL QUINLAN

March 31, 2004

The Honorable Peter Fitzgerald
Chairman
Subcommittee on Financial Management,
the Budget and International Security
Governmental Affairs Committee
United States Senate
Washington, DC 20510

The Honorable Daniel Akaka
Ranking Member
Subcommittee on Financial Management,
the Budget and International Security
Governmental Affairs Committee
United States Senate
Washington, DC 20510

Dear Chairman Fitzgerald and Ranking Member Akaka:

I am writing with regard to Senate Bill 346, a bill which would amend the Office of Federal Procurement Policy Act to establish a government-wide policy requiring competition in certain procurements from Federal Prison Industries (FPI).

As the former Director of the Federal Bureau of Prisons (BOP) from 1987 to 1992 and as a former warden for five years at the BOP's Federal Correctional Institution – Otisville (NY), I personally witnessed and experienced the tremendous value of Federal Prison Industries. It is my firm belief and opinion as a career corrections professional that a viable Federal Prison Industries program is a significant and critical component of a safe, secure and well run federal prison facility. Further, and perhaps most importantly, it is my strong belief that Federal Prison Industries is one of the most successful programs ever established to provide federal inmates the skills and experiences necessary to prepare for their release and eventual return to society as productive, law-abiding citizens.

In my opinion, it is virtually impossible to change the lives of criminal offenders while they are incarcerated without strong educational and vocational programs. The evidence has been clear for many years that federal prison inmates involved in FPI are less likely to return to incarceration than those inmates who have not participated in FPI. When I was BOP Director, the agency completed a study which affirmed those principles. Subsequent studies and research have demonstrated and reaffirmed those principles. In fact, the recidivism rate for FPI participants is 24% less than the rate for those federal inmates who do not participate in FPI.

The recent passage of Sections 811/819 of the National Defense Authorization Acts of 2002/2003 respectively and several measures implemented by FPI's Board have resulted in serious declines in several of FPI's programs, inmate employment levels and factory operations. These declines should be of critical concern to the Congress. FPI has long been a centerpiece of the BOP's outstanding record of facility management and operations. Over the past 20 years, even as the BOP's inmate population has increased by more than 600%, the agency has been able to maintain this outstanding record due in no small part to FPI. Without a strong and viable prison industries program, thousands of the BOP's 176,000 inmates will be less likely to improve their lives and upon release, find good jobs and become productive members of society.

1462 Evans Farm Dr. McLean, Virginia 22101

Page Two
March 31, 2004

In my view, Senate Bill 346, if enacted, would compound the serious declines FPI has been experiencing in recent years and critically wound a program that the BOP has been working very hard to reform. FPI has realigned factories and reduced operating costs, and it is continuing to seek ways to create new inmate jobs in areas such as fleet management, recycling, services and projects that would otherwise be performed outside the United States. FPI is making significant good faith efforts to meet the concerns of industry while providing viable opportunities for federal inmates. It is my hope that FPI and the BOP can continue these efforts without further restrictions.

Sincerely,

J. Michael Quinlan

cc: The Honorable Susan Collins
The Honorable Joe Lieberman
The Honorable Ted Stevens
The Honorable George Voinovich
The Honorable Arlen Specter
The Honorable Robert Bennett
The Honorable John Sununu
The Honorable Richard Shelby
The Honorable Carl Levin
The Honorable Thomas Carper
The Honorable Mark Dayton
The Honorable Frank Lautenberg
The Honorable Mark Pryor

STATEMENT FOR THE RECORD

OFFICE OF FEDERAL PROCUREMENT POLICY ACT [S. 346]

SUBMITTED TO

THE UNITED STATES SENATE

THE SENATE GOVERNMENTAL AFFAIRS SUBCOMITTEE ON FINANCIAL MANAGEMENT, THE BUDGET, AND INTERNATIONAL SECURITY

The Honorable Peter Fitzgerald, CHAIRMAN

By
REGINALD A. WILKINSON, Ed.D.

DIRECTOR, OHIO DEPARTMENT OF REHABILITATION AND CORRECTION
1050 FREEWAY DRIVE NORTH
COLUMBUS, OHIO 43229
(614)-752-1164

APRIL 7, 2004

INTRODUCTION

Chairman Fitzgerald and members of the Senate Committee on Governmental Affairs Subcommittee on Financial Management, the Budget, and International Security. I am Reginald A. Wilkinson, Director of the Ohio Department of Rehabilitation and Correction (ODRC) and current president of the Association of State Correctional Administrators (ASCA). I am pleased to provide you with written testimony regarding the impact of Senate Bill 346 [S. 346] on federal, state, and local correctional industries. I would especially like to thank the National Correctional Industries Association for inviting me to provide information to the Subcommittee on behalf of correctional industries, and for their ongoing support for the development of quality industry programs in our nation's prisons and jails.

First, I'd like to provide the Subcommittee with a general overview of the importance of prison industries in state correctional facilities, as well as a thumbnail sketch of Ohio's approach to prisoner employment, before delving further into the areas impacted by S. 346.

WHY PRISON INDUSTRIES?

Let me first address the issue of why I believe that it is vital for states to have effective prison industrial programs. In my view, there are at least six primary rationales:

First: Prison jobs are a management tool to keep prisoners busy. When prisoners are forced to be idle, tension and violence increase in correctional facilities. Prison industry programs keep thousands of inmates productively involved in the day-to-day, structured operation of our nation's correctional facilities, thereby increasing the safety of civilians and inmates alike, as well as the communities surrounding the facilities. This theory is backed by research data. Criminologist Bert Useem, Ph.D., noted in a 1999 multivariate analysis of prison protests, disturbances and riots that "the percentage of inmates with paid employment was inversely related to the probability of an inmate disturbance." Another criminologist, Beth M. Huebner, stated in her 2003 multilevel analysis of administrative determinants of inmate violence that "prisoners involved in work programs were significantly less likely to assault staff."

Second: Job training reduces crime. Inmates who participate in meaningful job training demonstrate a statistical reduction in recidivism. In a recent article by Larry Thompson of the Brookings Institute on the benefits of prison industries entitled "Federal Prison Industries: Fair to business, vital to society," he cites a Washington State Institute for Public Policy study that showed that for every $1 spent on prison industry programs, as much as $6.23 is saved in future criminal justice costs (arrest, conviction, incarceration, post release supervision and crime victimization). In Ohio, a 1995 study conducted by the ODRC showed that Ohio Penal Industries (OPI), our inmate industrial training program, is having a similar positive impact. Participation in OPI jobs reduced the return rate of offenders released from prison by 20 percent. Participation in high-skilled OPI jobs resulted in a 50 percent reduction in recidivism.

The study also indicated that certain groups of prisoners benefited differently. For instance, prison industry participation had the greatest positive impact on African American males.

Third: Meaningful job training contributes to the successful reentry of offenders and increases their chances of finding and keeping jobs after release. As one can imagine, former prisoners attempting to find jobs are at a natural disadvantage. It is our mission to teach them skills so that they can compete in the job market after they have served their prison sentences. Ohio's 105 vocational education programs range from building maintenance to welding, from brick laying to auto mechanics. A solid base of educational, treatment programs, reentry activities, and formalized linkages to the community combined with real work experience and developing work ethic, buttress prison vocational programs.

Fourth: Partnerships with private sector industries boost economic development. In an attempt to expand prison industries and create more real-world and high-skilled jobs, prison industries have placed an emphasis in recent years on partnering with the private sector. These partnerships benefit both state Departments of Correction and the companies they contract. In Ohio, we currently have 13 contracts with private sector entities that employ 808 inmates.

Before signing, contracts are reviewed by Ohio's Prison Labor Advisory Council (PLAC), a six-member board that advises and assists the Department in its responsibility to

create meaningful work for inmates. The Council is comprised of business and community leaders, who help insure that proposed private sector contracts meet the Department's objectives to have no adverse impact on Ohio's labor market. If endorsed by the PLAC, companies agree to sign a statement that they will not displace Ohio workers in utilizing inmate labor.

Fifth: Prison industries offset the cost of incarceration. Like most other state correctional industry programs, OPI is a self-supporting entity that does not require financial assistance from Ohio's General Revenue Fund. According to an independent study commissioned by ODRC, OPI further defrays taxpayer costs by providing a $15.9 million annual benefit to Ohio and creating 62 private sector "spin-off" jobs for a net gain to the local economy. Customer surveys, moreover, consistently demonstrate that OPI is fulfilling its mission to produce quality products.

By the end of fiscal year 2003, OPI employed over 2,100 inmates and generated sales of over $18 million. These sales enable OPI to cover expenses and operate self-sufficiently. OPI shops and services range from the traditional production of license plates and janitorial supplies, to high-tech services such as, asbestos abatement and computer refurbishing. Some of our current contracts are saving Ohio taxpayers millions of dollars by utilizing inmate workers to convert information digitally and make it available to the general public using Computer Aided Design (CAD) and Geographical Information Systems (GIS) support services. These activities are also preparing inmates for high-tech employment upon release.

<u>Finally, prison industries imbue inmates with a work ethic and a sense of self-responsibility.</u> Many inmates have never held a job for any length of time, nor have they learned to take instruction, and feel the satisfaction of a job well done. In Ohio and other states, prison industries work standards mirror the normal work environment as closely as possible so that when offenders are released to the community they are as ready as possible to join the work world and make a productive contribution.

It is also important that former prisoners learn to accept the same employment responsibilities that you and I do. They must support their families, pay their rent, and other obligations. In many cases, they are required to pay restitution, child support, and other legal judgments. I believe it is our duty to instill these traits.

COMMENTS ON SENATE BILL 346

I would now like to address some specific points of discussion regarding S. 346. Ohio and other State Departments of Correction are especially concerned with Section 3 of S. 346 that specifically amends 18 USC 1761 (a) and (c) at the federal, state, and local levels to prohibit the interstate sale of services furnished wholly or in part by prisoners within 180 days of enactment of the bill. This time frame gives prison industries only six months to completely phase out its service programs and to make accommodations for lost inmate jobs. Additionally, S. 346 would force federal, state and local correctional industries operating non-Prison Industry Enhancement (PIE) service operations to convert them to PIE programs under the U.S. Department of Justice certification, or be

forced to close them permanently. Unlikely to be economically viable under PIE requirements, nationally, this change could force the elimination of over 2,700 inmate jobs, negate the opportunity for viable service work programs in the future, and force thousands of inmates to be dangerously idle. This would have an obvious adverse impact on the state and national economies with the loss of more than $20 million in state annual gross revenues that are generated by correctional industry service operations. Furthermore, 2000 private companies who supply raw materials and partner with correctional industries would be placed at risk to lose their jobs should S. 346 pass in its current form. Finally, the states would be in jeopardy of being sued by these 2000 companies due to the abrogation of existing contracts, not to mention the related legal and court fees.

CONCLUSION

As I have stated above, prison industries provide many positive benefits to federal, state, and local correctional agencies by keeping inmates meaningfully engaged and by providing them with marketable job skills that may reduce the likelihood of future recidivism. They also provide positive economic benefits to states by reducing reliance on general revenue fund sources, creating demand for raw products and supplies, and by increasing skilled labor and establishing private sector partnerships. Communities and families benefit by offenders being returned to society with a greater likelihood for employment, a chance to become productive, law-abiding, and drug free citizens.

Based on the concerns that I and other corrections professionals have articulated with S. 346, I would urge that you delay its passage and work towards legislation that enhances rather than constrains prison industries.

Mr. Chairman and Committee members, thank you for the opportunity to submit my written testimony and for entering it into the record. Please contact me with any questions that you may have.

AFMA

April 5, 2004

The Honorable Peter G. Fitzgerald
Chairman

The Honorable Daniel K. Akaka
Ranking Member

Subcommittee on Financial Management, the Budget,
and International Security
Senate Committee on Governmental Affairs
446 Hart Senate Office Building
Washington, D.C. 20510

Dear Chairman Fitzgerald and Ranking Member Akaka:

On behalf of the American Furniture Manufacturers Association (AFMA), I would like to commend the subcommittee for its interest in holding a hearing on Federal Prison Industries (FPI) competition. Legislation being considered by the subcommittee today would bring much-needed competition to the government's procurement process by allowing agency contract officers to determine, based on product quality and delivery schedule, whether FPI or a private sector competitor offers the best value for the American taxpayers' dollars. AFMA supports bipartisan efforts to reform FPI's unique mandatory source status in the government procurement process, and respectfully submits these comments for the hearing record.

AFMA is the nation's largest trade organization for furniture manufacturers in the United States, representing more than 200 leading manufacturers and 250 suppliers. The majority of AFMA members are small and medium-sized businesses, often with 100 or fewer employees. Residential furniture is a mature industry, and AFMA members participate in a highly competitive market affected by ever-changing style preferences, margin pressures, and shifting patterns in consumer spending. According to UBS Investment Research, manufacturers' sales of residential furniture in 2002 totaled nearly $24 billion, an increase of 3.4 percent from 2001. AFMA serves as the principal voice of the domestic furniture industry, and is dedicated to fostering its long-term growth and development, and to improving the effectiveness and efficiency of furniture manufacturing in the U.S. AFMA's structure, programs, and member services are designed to encourage participation and continuing education at all levels of furniture manufacturing management, from the company president to the plant supervisor.

Although AFMA member companies primarily manufacture residential furniture, a small but growing number also produce contract furniture for sales to commercial businesses, educational institutions, hotels and resorts, and the federal government. In fact, it

American Furniture Manufacturers Association
1120 Connecticut Ave, N.W., Suite 1080 • Washington, DC 20036 • 202-466-7362 • Fax 202-429-4915
• http://www.afma4u.org •

surprised me to learn in preparing for this hearing that some of our member companies have supplied furniture to the federal government for more than 20 years. One such company, located in full committee Chairwoman Susan Collins' home state of Maine, has had a long history of producing a wide range of wood bedroom furniture for veterans homes in that state, through sales to the U.S. Department of Veterans Affairs and the U.S. Department of Defense. Still others sell distinctive furnishings to the U.S. Department of State for use in American embassies and official diplomatic residences overseas. In most of these cases, sales to the federal government represent less than 5 percent of a company's total sales, but they are an important part of these companies' strategies to remain competitive and to maintain domestic production. Moreover, these companies are quite proud to be able to offer high quality furniture products for sale to the U.S. government.

The need to explore and expand such business opportunities for domestic manufacturers is especially acute in the furniture industry, which is currently going through a difficult transition period. Since 2000, the furniture industry has lost some 15 percent of its domestic wood manufacturing capacity and nearly 30 percent of its work force. The stunning growth in the U.S. market of furniture imports, particularly from the Pacific Rim, is the dominant factor challenging the domestic furniture industry. In 1993, imports represented roughly 25% of all wood household furniture and approximately 6% of upholstered household furniture sold in the U.S. By 2002, imports jumped to 47.7% of wood household furniture and 13.7% of upholstered household furniture. While China remains the principal source of furniture imports, Brazil and Vietnam also have emerged as potentially significant new sources of furniture exports to the U.S.

Not surprisingly, consolidation, plant closings, and lay-offs have followed as import competition has caused domestic production to fall off. Since 2000, more than 47,000 residential furniture production workers have lost their jobs. Case goods workers, those who build wood furniture products, have been particularly hard hit, with a loss of more 32,000 jobs in just three years, or a 28.5 percent decline. Unfortunately, such job losses do not occur in isolation. The ripple effects of jobs that have been lost to imports and other factors have a corresponding adverse impact on companies that supply lumber, textiles, hardware, stains, adhesives, and many essential services to the furniture industry. Equally vulnerable are the rural communities where many furniture plants are located, and where economic development opportunities are already limited.

Because the domestic industry faces multiple challenges from competing in the global economy, AFMA is working with the Bush Administration, and the bipartisan Congressional Furnishings Caucus to explore new ways to increase demand for U.S.-made furniture products. For example, AFMA has consulted with the Commerce Department and the International Trade Administration on strategies to boost exports of American-made furniture products. Part of the answer lies in breaking down tariff and non-tariff barriers to foreign markets, and ensuring that trading partners are living up to the agreements they have entered into with the U.S. Another integral part of this strategy is to encourage our members to pursue business opportunities with the federal government. Unfortunately, if complicated government procurement rules and requirements aren't enough to discourage private sector firms from seeking to do business with the federal government, FPI's virtual monopoly on federal contracts is.

With this subcommittee's help, however, we hope to make it easier for private sector firms to compete for the government's business.

As you know, FPI is a government-owned corporation, operating under the trade name "UNICOR," that employs federal prison inmates to produce goods and services for sale to government agencies. FPI enjoys a special "mandatory source" status in the federal market, which essentially compels government agencies in need of a product to purchase that product from FPI regardless of price or quality – whether the product is shoes, pants, mattresses, electronics, or even furniture. FPI is not required to compete for government contracts, and is exempt from paying its workers minimum wage. Current law prohibits private companies from competing for any federal contract if FPI seeks a monopoly. If FPI says it wants a particular contract, it gets that contract, regardless of whether a company in the private sector can provide the same product cheaper, better, or faster. No consideration can be given to a private sector competitor unless that agency petitions FPI for a waiver from its own monopoly. I am certain that members of the subcommittee will agree that there is something profoundly unfair about denying businesses in the private sector an opportunity to compete for sales to their own government – sales that are paid for by their tax dollars.

This combination of preferences has made it difficult for many private sector companies to compete effectively for government contracts, including U.S. furniture manufacturers who produce office, contract, and dormitory-style furniture products. According to their 2002 Annual Report, the most recent available through FPI's Internet site, FPI generated more than $670 million in net sales of inmate-manufactured goods and services in 2002. Of the eight business units that comprise FPI's core programs, the furniture-related business unit had the highest amount of net sales in 2002 – $217.9 million – and "employed" the second largest number of inmates – 5,304. While $218 million may not seem like a lot of money, especially at a time when federal budgets are measured in *billions* of dollars, every piece of furniture purchased from FPI represents a potentially lost opportunity for domestic furniture manufacturers, especially if the law prohibits them from competing for the government's business. Moreover, as an enterprise with more than 20,000 "employees," FPI looms as a formidable competitor in the procurement arena, especially against smaller businesses who must contend with a host of structural costs and regulatory burdens.

For several years now, AFMA has been an active member of the broad-based Competition in Contracting Coalition, made up of business, labor, and federal manager representatives, which has advocated comprehensive reform of the FPI program. AFMA and the Coalition both strongly support S. 346 and H.R. 1829, which the House of Representatives overwhelmingly approved last November. H.R. 1829, the Federal Prison Industries Competition in Contracting Act, provides phased-in legislative reform of FPI's mandatory source status to allow private sector companies to bid on contracts now reserved for FPI, and prevents FPI from expanding into the commercial market. The bill also provides a transition period for FPI as it adapts to the loss of its preferential status. AFMA supports the bill's inclusion of alternatives to inmate rehabilitation as a means of facilitating re-entry into private employment, such as providing work opportunities through partnerships with non-profit organizations and additional educational, training, and release-preparation programs. Equally important, the legislation calls for an

independent study to determine the consequences of modifying FPI's mandatory source authority, including developing recommendations for any corrective legislation. Though smaller in scope, S. 346 would similarly ensure that private sector firms are able to compete for contracts with all federal agencies. Under the bill, if a federal agency can get an equal or better product at a lower price from a private sector source, the agency would be free to purchase it from the private bidder. The bill does not limit FPI's ability to sell its products to federal agencies, but instead requires that such sales be made on a competitive, rather than a sole-source basis.

While fundamental reform of FPI remains our top priority, AFMA is pleased that Congress has taken notable interim steps toward creating a more level competitive playing field in the government procurement process. Thanks in large part to the efforts of Senator Carl Levin (D-MI), a member of this subcommittee, Congress included a provision in the Fiscal Year 2002 Defense Authorization Act that enables commercial firms to compete with FPI for contracts with the Department of Defense, one of the largest procurement customers in the federal government. Earlier this year, a similar provision was included in the Fiscal Year 2004 omnibus appropriations package that allows federal agencies to decide for themselves how best to meet their procurement needs by examining the current marketplace and purchasing products on a competitive basis. Government agencies would still be able to purchase goods and services from FPI, but only if they represent the best value to the buying agency. The good news is that the provision affects procurement decisions on a government-wide basis, not just with respect to Defense Department contracts. The bad news is that it will expire at the end of the current fiscal year unless Congress renews it or enacts a more permanent solution.

Like our Coalition partners, AFMA believes strongly in protecting American businesses from unfair government competition. In its current form, FPI enjoys a special status in the government procurement process that can no longer be justified – in terms of fundamental fairness, quality and value to the taxpayers, and potential opportunities for American manufacturers to maintain and expand their businesses. Given a level playing field, America's skilled furniture workers are highly competitive when it comes to price, quality, and delivery times. They should have every opportunity to compete fairly for the federal government's business. AFMA greatly appreciates being able to share its perspective on the need for FPI reform with the subcommittee, and looks forward to working with you and all members of the Senate Governmental Affairs Committee to advance S. 346 this session.

If you have any questions, please do not hesitate to contact me at (202) 466-7362.

Sincerely,

Christopher P. Pearce

Christopher P. Pearce
Director of Congressional & Regulatory Affairs

25
Years of Excellence 1979-2004

The Coalition for Government Procurement

1990 M Street, NW · Suite 400 · Washington, D.C. 20036 · (202) 331-0975 · Fax (202) 822-9788
www.coalgovpro.org

Statement to be submitted for the Record of
The Coalition for Government Procurement
Before the US Senate Governmental Affairs Committee's
Subcommittee on Financial Management, the Budget and
International Security Regarding oversight of Federal Prison
Industries Reform, S. 346.
April 7, 2004

Mr. Chairman and Members of the Subcommittee.
The Coalition for Government Procurement appreciates this opportunity to comment today in support of S. 346 and FPI reform. The Coalition has worked closely with Congress and industry through the years as the issue of FPI's mandatory source status has been debated, and we look forward to the discussion of S. 346 and ultimately the implementation of a procurement plan that is fair and just for the agencies, the taxpayer, the prisoner.

The Coalition is a 330-member association of companies selling commercial solutions to the federal government. Our members include both large and small businesses, many of them suppliers to DOD. Coalition members account for nearly 75% of all sales made through GSA Multiple Award Schedule contracts and over half of all commercial solutions purchased annually by the government. We have worked *with* government officials for over 22 years to ensure common sense in government procurement.

The Coalition for Government Procurement has worked on this issue for 15 years. We have engaged FPI in an attempt to work together and have taken legal action to protect our members. Few organizations are as well positioned to speak on FPI's impact on contractors and the federal market.

Now is the time to reform FPI. FPI has proven to be untrustworthy and has fought industry every step of the way. Most recently with the passing of the provision in the 2004 Defense Authorization bill in Congress eliminating FPI's sole source status for one year, FPI continues to fight and has proven once again that it does not respect our system. S. 346 is strong medicine and FPI today is a patient in need of it.

The Coalition considers S. 346 to be the representation of an effort to create a fair government procurement process while improving the prison rehabilitation and training program. While federal agencies are considered to be the prime customer of FPI, the process is lacking the benefits of fair market interaction and, in turn, improved value dependent upon the presence of competition. We support Senator Levin and the Congressional authors of this legislation who have sought to improve the quality of product and value of service to the federal customer, while at the same time encouraging continued training and education that is necessary to assure that paroled offenders do not return to lives of crime.

Both industry and the federal government benefit from fair competition based on price, quality, and performance. To be truly reformed, FPI must compete with the private sector. While this would require FPI to improve its quality and customer service, it would greatly improve the value received by the federal government and will ultimately help FPI while providing a procurement policy that is fair for the taxpayer.

Over the past twenty-five years, the Coalition has had significant experience working on issues related to FPI directly as well as through furniture company members, and each instance revealed procedural and methodological problems that are systemic in nature and require fundamental legislative reform such as S. 346 can produce. In order to thoroughly reform FPI, Congress must eliminate the mandatory source and require FPI to compete with the private sector.

FPI must not be given sole power to control the market, to choose federal winners and losers in for the rest of society is a competitive world of success or ultimate failure. It is in the hands of FPI's Board of Directors to approve products and services for the Federal market, but it is in the hands of Congress to improve the procedures by which the Board does so, and it is time for Congress to step in.

In the House of Representatives joint Subcommittee hearing last spring, FPI senior officials stated that they did not fear losing their sole source status, that they had faith in their organization and believed they would be able to compete without fail. Now is the time to give FPI that opportunity.

In fact, FPI has proven this itself that losing sole source status will not definitely lead to demise. A few years ago, FPI's dormitory furniture sales were changed from sole-source status to competition, and instead of going under as FPI's leading proponents would express it would have, dormitory sales flourished. FPI can withstand competition when run ethically, morally, and when forced to step up to the competition.

Opponents of S. 346 stress the fact that ending FPI's sole source status has the potential of ending inmate training and lowering work rates, yet FPI sells products branded as "Prison made" that never see the inside of a prison. While this may make for profitable business, and is similar to

private practices, this policy does nothing to increase inmate employment and should be prohibited. FPI needs to place a limit on the amount of work contracted to non-FPI sources, thereby protecting the work of inmates, even as they compete in the Federal market. Repeatedly, FPI has admitted that it uses "pass-through sales" to fill some of the orders that its takes from its federal customers. Although FPI has stated that such sales are contrary to its mission and not in its best interests, FPI's discretion to fill orders from Federal customers with goods made entirely by non-prison labor is unlimited. The case of those opposing this legislation is founded on the fact that thousands of inmates will be out of work. Coalition contention is that FPI sales could actually be reduced, lessening their private sector input, while increasing inmate employment.

The Federal prison system and federal government procurement has changed a great deal since FPI was created in 1935. While the need to have new ways to reduce inmate idleness has grown with the inmate population, so has the manner in which FPI has been permitted to deny legitimate private companies from competing to supply goods and services to the federal government. Before granting FPI new opportunities to compete unfairly with private firms, Congress must fundamentally reform FPI's abusive authorities in the federal market.

The Coalition believes that S. 346 deserves this long-awaited opportunity for consideration in the Senate. FPI has fought reform every step of the way yet its business continues to grow. FPI's consistent inability to acknowledge existing law is a growing concern, and to further postpone what is fair and just for the agencies, the taxpayer, the prisoner, and the process as a whole would in the end be increasingly costly for all involved.

The Coalition supports Senator Levin's Senate bill 346 and appreciates the opportunity to comment. If we can be of assistance, please contact Kathryn Coulter, Director of Policy, at 202-331-0975.

NATIONAL CORRECTIONAL INDUSTRIES ASSOCIATION

NATIONAL CORRECTIONAL INDUSTRIES ASSOCIATION, INC.
1202 North Charles St. * Baltimore, MD 21201 * (410) 230-3972 * Fax (410) 230-3981

April 16, 2004

The Honorable Peter G. Fitzgerald
Chairman
Senate Governmental Affairs Subcommittee on Financial
Management, the Budget and International Security
446 Senate Hart Building
Washington, DC 20510

Dear Chairman Fitzgerald,

Thank you for affording us the opportunity to submit written testimony for the record with regard to S. 346 – the Office of Federal Procurement Policy Act – sponsored by Senators Levin and Thomas. As we have expressed, S. 346 poses a serious danger to the future safe management of our nation's state and federal correctional facilities, and compromises our ability to support the successful reentry of offenders.

Mr. Chairman, we understand that the sponsors of S. 346 want you to poll the subcommittee on the bill as soon as possible. As you know, the General Accounting Office (GAO) will be releasing its study on April 30, 2004, of the 2002 and 2003 Department of Defense Appropriations Act provisions restricting Federal Prison Industries' mandatory preference. We respectfully request that you <u>not take further action on S. 346</u>. A reasonable amount of time needs to be allowed for a thorough review of the GAO report – at a minimum, 30 days.

The hearing that you conducted in the Senate Governmental Affairs Subcommittee on Financial Management, the Budget and International Security was a step in the right direction toward educating Senators on the potential negative impacts of the bill. It was unfortunate that a witness speaking specifically to the issues from the states' perspective was not at the table to answer the Senators questions in person. We hope that the written testimonies that have been submitted for the record will be carefully reviewed before any further action on S. 346 is considered.

Passage into law of S. 346 would create a number of unintended, but nevertheless, serious consequences for state corrections systems, as well as hurt the Federal Bureau of Prisons. Negative impacts include the following:

- ✓ Serious threats to the safety and stability of state and federal prisons and the communities where they are located due to forced inmate idleness caused by a reduction in industry assignments.
- ✓ Unfunded mandate placed on states – by the abrogation of thousands of existing service industry contracts between state corrections systems and their vendors and suppliers, thus resulting in costly legal fees and the need for states to pay for alternative programming to offset the risk of idleness.
- ✓ Negative fiscal impacts on state correctional budgets.
- ✓ Unnecessary termination of thousands of private sector and inmate jobs.
- ✓ Destruction of the only self-funded reentry program in our correctional facilities – an action that would be counterproductive to President Bush's commitment to supporting reentry.

We hope that regardless of your position on S. 346, you will agree that it is only appropriate that Senators understand the GAO findings before taking further action on S. 346. In light of the report findings, an additional hearing may need to be conducted on S. 346. Should an additional hearing be conducted, we would appreciate the opportunity to provide a witness who could adequately address the states' perspective on the detrimental effects of S. 346.

Thank you for using your considerable influence to delay passage of S. 346 until its impact on state corrections systems is fully examined and clearly understood, and until the findings of the upcoming GAO report have been thoroughly reviewed.

Please contact me at 410-230-3972, or 410-961-0373 should you have any questions.

Sincerely,

Gwyn Smith Ingley
Executive Director

STATEMENT FOR THE RECORD
CONTRACT SERVICES ASSOCIATION OF AMERICA

Senate Subcommittee on Financial Management, the Budget, and International Security Hearing

S. 346, the "Federal Prison Industries Reform Act of 2003"
April 7, 2004

Mr. Chairman and Members of the Committee, the Contract Services Association of America (CSA) requests that this statement be included in the official record for your April 7th hearing on "Federal Prison Industries Reform Act of 2003" (S. 346.) CSA is the nation's oldest and largest association of service contractors, and represents more than 300 companies that provide a wide array of services to Federal, state, and local governments. Our members are involved in everything from maintenance contracts at military bases and within civilian agencies to high technology services, such as scientific research and engineering studies. Many of our members are small businesses, including 8(a)-certified companies, small disadvantaged businesses, women-owned, HUBZone, and Native American owned firms. Our goal is to put the private sector to work for the public good.

We have worked closely with private sector labor unions, the U.S. Chamber of Commerce and other associations and individual companies to work on an equitable resolution of the problems that the Federal Prison Industries (FPI) has caused for many companies, especially the small businesses of this Nation. As we have noted in the past, while the goals of FPI are laudable, the manner in which it has aggressively pushed itself into the Federal marketplace – and many legitimate businesses out of that same market – is not.

<u>Background</u>

The history of FPI is well known. It was created in 1934 to employ Federal prisoners to manufacture products exclusively for all Federal agencies. But, as a mandatory source of supply, FPI has a virtual lock on the Federal market – putting the rights of felons' above the need for the Government to get the best value for its tax dollars, and above the rights of hardworking law abiding citizens.

How does this mandatory source status work? Current law and regulation obligates a Federal agency to look first to FPI to fulfill its requirements for a product – and to negotiate a contract with FPI on a **sole source** basis. The final determination of the price to be paid for its products is left to FPI – not to the Federal manager. The only way around buying from the prisons is for an agency to request a waiver from FPI itself, which controls both the waiver and appeals process. This process ties the hands of Federal managers on FPI designated items. The mandatory source requirement is completely contrary to normally required competitive procurement practices for Government contracting as well as overall Government policy, which states that *"In the*

process of governing, the Government should not compete with its citizens. The competitive enterprise system, characterized by individual freedom and initiative, is the primary source of national economic strength." (Section 4, 1996 Revised Office of Management Budget Circular A-76). It is also contrary to the bi-partisan efforts of the last several years to encourage greater commercial practices in how the Federal government conducts its business. These reform initiatives (*e.g.*, the 1994 Federal Acquisition Streamlining Act, the 1996 Clinger-Cohen Act and the FAR Part 15 rewrite) require Federal agencies to conduct market research, have informal discussions with industry, and take steps to assist agencies in identifying their needs. Acquisition reform, with its emphasis on best value, also has led to more performance based contracting, the issuance of more refined statements of work, a reduction in procurement lead times, and an improvement in quality control.

Of course, FPI claims it can provide products of equal or better quality than the private sector, make deliveries as promptly as the private sector, and sell some products at a lower price than the private sector thereby saving taxpayer dollars. But these statements are not true. That is why FPI fights so hard to keep its "super preference" that allows it to force out the private sector and prevent companies from bidding on contracts.

Indeed, contrary to FPI's assertions, the General Accounting Office (GAO) reported in April 1998 that the Federal Prison Industries cannot back-up its frequent claims about being a quality supplier to Federal agencies, furnishing products that meet their needs in terms of quality, price, and timeliness of delivery. Once FPI commandeers a product, it erodes, displaces, or eliminates private sector competition, thus opening the door for it to raise its future prices.

FPI has an additional unfair advantage over the private sector. It need not comply with the laws and regulations imposed on the private sector such as those governing minimum wage rates, retirement and other fringe benefits, insurance costs, and compliance with OSHA requirements. And, according to the General Accounting Office, the cost of prison labor ranges from .25 cents to $1.23 per hour.

Unfair Expansion into Services Contracting

So far, these comments have focused on FPI's mandatory source in the manufacturing arena. So why should the Contract Services Association of America (CSA) and its members care about FPI's impact in the manufacturing world? CSA has entered the discussion because FPI sees services as ripe for aggressive expansion. While the authorizing statute is silent with respect to services, FPI already is involved in numerous service-related activities including laundry services, distribution and mailing services, data services, and telephone support services.

While the mandatory source requirement does not strictly apply to services, FPI has implied that it is a "preferential source" for services and used this to enter into sole source contracts with Federal agencies for services. Unfortunately, the approval process and the requirement for an adverse market impact study that affords some coverage for

private sector manufacturers are not applied to services. Furthermore, FPI does NOT have to pay any competitive wages to prisoners. As was noted earlier, this ensures they have an advantage over service companies that must comply with the Service Contract Act and other labor laws and regulations.

It would appear that congressional authorization, along with the necessary protections, must be given before the FPI could ever contemplate becoming a services provider for Federal agencies. However, CSA does not advocate this – because our members do not believe the FPI should be allowed to enter the services marketplace at all.

The FPI's expansion into services contracting is particularly critical as the Federal government progresses towards greater competitive sourcing of its commercial activities. CSA is concerned about previous statements made by FPI to become the "first-stop" for Federal agencies when they decide to contract out those commercial activities currently being performed by Federal employees.

There is an ever-increasing appreciation of the many benefits offered by thoughtful and balanced efforts to competitively source the Federal government's commercial activities. For example, the Federal Activities Inventory Reform (FAIR) Act is aimed at promoting competition of commercial activities currently being performed by Federal agencies, where doing so represents the best value to the taxpayer. But supporters of the FAIR Act, such as CSA, did NOT work hard to get that measure enacted only to see these commercial activities turned over – without competition – to FPI.

Turning over commercial activities to FPI without competition raises a very fundamental fairness question. Part of the debate over competitive sourcing focuses on developing fair and appropriate "soft landing" policies to those Federal employees who are impacted by an outsourcing decision by giving those Federal employees a right of first refusal for jobs for which they are qualified, as well as other benefits. Indeed, the percentage of Federal employees offered a position with a private sector firm taking over a commercial activity is high. But there would be no soft landing or right of first refusal for a Federal employee whose job would be going to FPI. For that matter, how does any employer (private or Federal) explain to his/her employees that FPI is taking over the manufacturing of a product or the provision of a service that the employees have been performing in order to give jobs to criminals? What will happen to the people who lost their jobs to prisoners? Must they commit a crime to get their job back?

Unauthorized Expansion into Commercial Market

Equally disturbing is FPI's intent to expand into the commercial marketplace. This is an alarming development that should be opposed for at least three reasons. First, FPI's attempts to expand into the commercial market is in conflict with the clear language of FPI's enabling legislation. Second, it is a reversal of more than sixty years of public policy. Finally, the creation of a state run enterprise, competing with its own citizens, is a policy at odds with the role of Government in a free society.

FPI's decision to expand into the **commercial market** was based on a series of internal Justice Department legal 'opinions,' which found that expansion into the commercial market is not in conflict with FPI's enabling legislation. In a memo dated November 11, 1997, FPI concludes, "it is not prohibited from selling *services* on the open market." According to FPI's reasoning, because congressional debate on this provision focused mainly on products that the Congress did not intend to prohibit FPI from entering the commercial services market. The opinion gives only cursory treatment to 18 U.S.C. section 4122(a), which states:

> ***18 U.S.C. 4122(a):*** ***Administration of Federal Prison Industries***
> ***Federal Prison Industries shall determine in what manner and to what extent industrial operations shall be carried on in Federal penal and correctional institutions for the production of commodities for consumption in such institutions or for sale to the departments or agencies of the United States, but not for sale to the public in competition with private enterprise.***

Since its inception in 1934, FPI has adhered to this statutory prohibition preventing it from entering commercial markets. It has exclusively, and with preferential status, sold its products to the Federal government. In other words, for more than sixty years, FPI has interpreted its statute to mean what it says, *"but not for sale to the public in competition with the private sector."*

Now, based on an internal memorandum, FPI is attempting to overturn sixty years of policy, without public debate. If FPI pursues this avenue without restriction, the United States now will be selling commercial services in competition with law abiding taxpaying businesses, using prison labor that is often paid less than a dollar an hour. The creation of a state run enterprise, using prison labor to offer products or services to the commercial market in competition with private enterprise is a dramatic shift in policy, and in conflict with the clear language of 18 U.S.C. 4122(a). However, there are absolutely no circumstances that would warrant the Federal government using prison labor to compete with law-abiding employers. Therefore, CSA strongly urges you to not allow FPI to sell its products or services to the commercial market.

Federal Agencies Actions

The Department of Defense (DOD) was the first Federal agency to receive relief from unfair competition from FPI. Section 811 of the Fiscal Year 2002 Defense Authorization Act requires the DOD to conduct market research before purchasing products which are listed in the catalog for the Federal Prison Industries (FPI), to determine whether the FPI product is comparable in price, quality and time of delivery to products available in the private sector. If the FPI product is not comparable, DOD must use competitive procedures to acquire the product – and NO waiver (from FPI) is required should DOD determine FPI is not comparable. The determination of comparability is *"a unilateral decision made solely at the discretion of the department or agency"* (e.g., the Department, Service or defense agency). Furthermore, the comparability determination is based on whether FPI can provide the product on the basis of price, quality AND time of delivery. Additional clarifying language (section 810) was

included in the conference report for the Fiscal Year 2003 Defense Authorization Act. A final rule to implement this provision was published in the Defense Federal Acquisition Regulation Supplement (DFARS) on November 14, 2003.

Similar relief was given to all Federal contracting officers by section 637 of division F Consolidated Appropriations Act, 2004, (P. L. 108-199); an interim final rule was published in the Federal Acquisition Regulation (FAR) on March 26, 2004.

These FPI reform provisions ensure that contracting offices across all Federal agencies have the freedom to explore the market for products to determine if FPI's pricing is reasonable and compares in terms of cost and quality to the private sector. Thus, these are critical acquisition reform initiatives (including market research) for FPI – and this authority should be extended on a Government-wide basis to ALL Federal agencies.

If FPI is to become a vehicle for reducing idleness and preparing inmates for the private sector, it should prepare those inmates for the reality of the competitive pressures faced by real life employers and employees, and the need to respond to, rather than dictate, customer needs.

Past Performance

In late August 2003, the Federal Acquisition Regulation (FAR) Council issued a proposed rule to expand the use of past performance evaluation requirements to Federal Prison Industries (FPI) contracts. CSA submitted comments in support of the proposed rule.

The proposed rule is a step towards reform, although questions remain on reconciling its mandatory source status with any past performance evaluations it may receive. The proposed rule would amend the FAR to empower Federal contracting officers to evaluate FPI's performance of its contracts, as is done for all other Government contractors. Currently, FPI's past performance (good or bad) cannot be evaluated – and since FPI is a mandatory source, past performance evaluations have been irrelevant. This discrepancy needs to be addressed.

CSA believes that FPI should be held to the same standards as private sector vendors, and that past performance records should have the same impact on contracting decisions with FPI as they do with private sector vendors, where a contractor's past performance is a factor, often a significant factor, in source selections. In FY 2001, FPI was ranked as the 39th largest Government contractor, with total sales of $582.5 million. Given the high dollar volume of revenue generated each year and the number of contracts entered into by Federal agencies with FPI, it is only fair and equitable that contracting officers should have access to FPI's past performance records. Considering that the General Accounting Office (GAO) has reported that FPI cannot back-up its frequent claims about being a quality supplier to Federal agencies – furnishing products that meet

their needs in terms of quality, price, and timeliness of delivery – contracting officers need to be given the full story.

Vocational Training

Certainly, CSA does recognize that the FPI must balance two legitimate needs currently defined in the law:

1) The need to provide work opportunities to help combat idleness and recurrence of law-breaking through the TRAINING of prisoners for gainful employment so they may become productive members of society upon their release from prison; and
2) The need to minimize the effect of the FPI's work program on the private sector and its non-inmate employees.

However, these goals are not being met. A number of individuals have testified at various hearings that the FPI's current operations fail at inmate rehabilitation while hurting businesses and non-inmate workers. The inmate workers of FPI are not receiving the vocational training that will prepare them for jobs upon release. Instead, their work experiences with the FPI only teach very basic skills. CSA believes believe that vocational skills training is extremely important to a prisoner's future once he/she has returned to the "real world." Yet, such training does not appear to have a place within the FPI.

Conclusion

FPI's mandatory source requirement has been particularly detrimental to our nation's small businesses. Recognizing this, a key recommendation at the 1995 White House Conference on Small Business was that Government mandatory sources be curtailed from competing unfairly with small private sector firms. It is time to act on these recommendations.

That is why CSA and its members support a common-sense proposal introduced by Senators Craig Thomas (R-WY) and Carl Levin (D-MI). S. 346 would require FPI to be a more responsible supplier to Federal agencies and the taxpayer, and would allow the private sector to compete fairly with FPI for Federal contracts by eliminating the requirement that Government agencies purchase products from FPI. Recently, the U.S. House of Representatives passed overwhelmingly the "Federal Prison Industries Competition in Contracting Act of 2003" (H.R. 1829) by a vote of 350-65. The time is now for Congress to make these provisions permanent by passing S. 346.

As the association that represents the broadest sector of service companies, CSA believes that both industry and the Government benefit from fair competition based on the price and quality of the product or service in question. CSA looks forward to working with you to promote that goal.

1800 Diagonal Road
uite 200, Alexandria, VA 22314
877) 770-9274 (703) 519-0029
Fax. (703) 519-0026
http://www.trsa.org

ROGER F. COCIVERA
President and CEO

TRSA **Textile Rental Services Association of America**

Representing the Textile Rental Industry: Linen Supply, Uniform Service, Dust Control and Commercial Laundry Services

STATEMENT OF ROGER F. COCIVERA

PRESIDENT/CEO

TEXTILE RENTAL SERVICES ASSOCIATION OF AMERICA

SUBMITTED TO
SENATE FINANCIAL MANAGEMENT, THE BUDGET, AND INTERNATIONAL SECURITY SUBCOMMITTEE OF THE SENATE GOVERNMENTAL AFFAIRS COMMITTEE

UNITED STATES SENATE

April 7, 2004

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to submit this Statement as President/CEO of the Textile Rental Service Association of America (TRSA). Since 1913, TRSA members have provided textile maintenance and rental services to commercial, industrial and institutional accounts — over 90 percent of TRSA member companies are small businesses. TRSA members serve hygienically clean textile items to millions of customers in commerce, industry, and other professions. Major customers of most uniform and linen supply services and commercial launderers include: automobile service and repair facilities, food processing companies, pharmaceutical manufacturers and other manufacturing facilities; hotels, restaurants, hospitals, nursing homes, doctors' and dentists' offices and clinics; retail stores and supermarkets; and a variety of other industrial and service companies. The combined textile rental industry had an estimated 2002 sales of about $10.9 billion. Linen supply and industrial laundering companies employ more than 110,000 people.

TRSA strongly supports S. 346, a bill to amend the Office of Federal Procurement Policy Act to establish a governmentwide policy requiring competition in certain executive agency procurements, which is designed to protect workers and businesses from unfair competition from the Federal Prison Industries, Inc. (FPI)—a Government owned corporation. The language included in this bill would require FPI to be a more responsible supplier to federal agencies and the taxpayer, and would allow the private sector to compete fairly with FPI for federal contracts by eliminating the requirement that government agencies purchase products from FPI. Similar reform measures were enacted as part of the FY'02-03 Department of Defense Authorization bills and as part of the FY'04 Transportation-Treasury Appropriations bill, which allows the contracting officer, rather than FPI, to choose the best possible supplier to meet its needs. The time is now for Congress to make these provisions permanent by passing S. 346.

Sen. Levin's proposed legislation enjoys broad bipartisan support of the Competition in Contracting Coalition, made up of business, labor, and federal managers who are actively seeking a level playing field with FPI to ensure a fair and efficient federal procurement process.

TRSA urges the subcommittee to ensure that S. 346 or any similar legislation will include a strong provision regarding services. The textile rental services industry is concerned with FPI's assertion that it possesses the authority to sell services in the commercial market, without limitation. FPI's position is based on a questionable 1998 Department of Justice (DOJ) determination that inmate-furnished services provided by FPI are not explicitly prohibited by the broadly applicable 1934 statutory prohibition on the sale of the results of inmate-labor in interstate commerce. The statute specifically includes a prohibition on the sale of inmate-produced goods/products, but makes no specific mention of services. As such, FPI has aggressively marketed services in the commercial market since 1998, reversing 64 years of practice. Without strong Congressional action, FPI will precede full throttle into these small-business dominated service sectors.

FPI enjoys significant advantages in any competition with small businesses in the private sector. FPI pays inmates less than two dollars per hour, far below the minimum wage and a small fraction of the wage paid to most private sector workers in competing industries. While damaging to all businesses, the effects of government subsidized competition is particularly harmful to small businesses.

I urge your careful consideration of any legislative proposals such as S. 346.

Thank you for your consideration.

UNITE!

LEGISLATIVE OFFICE
1825 K ST., NW, LOWER LEVEL
WASHINGTON, DC 20006
TEL 202.347.7417 • FAX 202.347.0708

Statement of UNITE!

In support of

S.346, A bill to amend the Office of Federal Procurement Policy Act to establish a government wide policy requiring competition in certain executive agency procurements.

Before the Senate Financial Management, the Budget and International Security Subcommittee
Senate Committee on Governmental Affairs

The Honorable Peter G. Fitzgerald, Chairman

The Honorable Daniel K. Akaka, Ranking Member

Wednesday, April 7, 2004

AFL-CIO • CLC
www.uniteunion.org

BRUCE RAYNOR *President*
EDGAR ROMNEY *Secretary-Treasurer*
MARK FLEISCHMAN *Executive Vice President*
WILLIAM LEE *Executive Vice President*

PATRICIA CAMPOS *Legislative Director*
pcampos@uniteunion.org
CHRISTOPHER CHAFE *Political Director*
275 SEVENTH AVE., 10TH FL. NY, NY10001
TEL 212.265.7000 • FAX 212.765.9542

Thank you for the opportunity to present the views of UNITE. On behalf of the 250,000 members of UNITE, we urge you this subcommittee to support S. 346, a bill to amend the Office of Federal Procurement Policy Act to establish a government-wide policy requiring competition in executive agency procurements. We believe procurement policy should be reformed to allow federal agencies to choose freely between private sector suppliers and Federal Prison Industries, so that they can make contracting choices that best serve the interests of the end users and the American taxpayers.

UNITE is the largest union of garment and textile workers in North America. Our members in the apparel and textile industry, and the companies for whom they work, have had to bear the disproportionate burden of unfair competition from the Federal Prison Industry complex. Under current law, FPI receives preferential status in government procurement, which requires federal agencies to buy only from FPI, rather than using a competitive purchasing process. The private sector is not even given consideration unless an agency asks for an exemption from FPI's monopoly. Our members have been and continue to be adversely affected by this preferential status; more than 24% of FPI sales are in the apparel and textile industry. FPI directly competes with free labor for the small amount of apparel and textile work that still remains in the United States. We at UNITE wholeheartedly believe that the Federal Prison Industries should not be in the business of putting law abiding American workers

out of work. That is why we strongly support this measure to allow for private sector competition with FPI.

We believe that FPI dominance in the area of federal procurement of apparel goods is a direct threat to the welfare and economic viability of apparel workers and their communities. Despite the onslaught of low-wage offshore labor in the apparel industry, there remain approximately 400,000 apparel jobs in the United States. Many of the factories that produce for the U.S. government are factories in small towns in rural America where the loss of factory jobs can deal a deathblow to a whole community. One of the important remaining opportunities for the existence of a domestic apparel industry is production for the federal government. The Berry amendment requires that uniforms and other apparel be produced domestically. Therefore, every garment produced in a factory prison is production removed from a U.S. factory. There is no way around the fact that, in the military uniform sector, prison production directly destroys U.S. jobs.

It is particularly galling that one of the justifications used to support prison industry programs is that prisoners receive on-the-job training that can prepare them for employment upon their release into society. Prisoners trained to manufacture clothing will find themselves, upon release, competing for work with hundreds of thousands of unemployed and laid-off garment and textile

workers who have lost their jobs as a result of imports, and in many cases, as a result of unfair competition from federal prisoners.

UNITE believes, of course, that there are legitimate and important reasons to have vocational programs inside prisons – to occupy prisoners and keep the peace inside prisons, and to enable prisoners to have real work experience. UNITE shares the view of the AFL-CIO and its other affiliates that training opportunities should be provided for prisoners to help in their rehabilitation, and to reduce recidivism. However, the creation of just any type of work activity, without any regard for the future employability of the prisoners upon their release to society, and expropriating economic activity that could create jobs for law-abiding citizens, seems on its face to be perverse public policy.

In fact, the policy impetus behind the Berry amendment is to provide for a "warm industrial base" of manufacturers that can supply our armed services with the uniforms and other equipment that they need, including in times of war and emergencies. But all the production that the government gives to Federal Prison Industries instead of to the private sector severely weakens the industrial base of companies that can supply protective uniforms and apparel, and limits the military's options for reliable "surge" production and supply in times of crisis.

Furthermore, private sector manufacturers have shown that in many cases they can compete with and improve upon the quality, delivery and price offered by Federal Prison Industries. UNITE members and their employers are highly skilled and make great garments. These companies should be given the chance to offer a better deal to government agencies, and the agencies should be given the chance to solicit those offers and select the best option available without being restricted to FPI. FPI's monopoly creates disincentives for FPI to improve its quality, delivery and price.

S. 346 is a strong step in the right direction. This broad bipartisan legislation has the support of the Competition in Contracting Coalition, which is made up of business, labor, and federal managers, which is actively seeking a level playing field with Federal Prison Industries to ensure a fair and efficient federal procurement process. The language included in this bill would require FPI to be a more responsible supplier to federal agencies and the taxpayer, and would allow the private sector to compete fairly with FPI for federal contracts by eliminating the requirement that government agencies purchase products from FPI. Similar reform measures were enacted as part of the FY'02-03 Department of Defense Authorization bills and as part of the FY'04 Transportation-Treasury Appropriations bill, which allows the contracting officer, rather than FPI, to choose the best possible supplier to meet its needs. The time is now for Congress to make these provisions permanent by passing S. 346.

Your colleagues in the House passed an FPI reform bill (H.R. 1829) last year by an overwhelming 350-65 margin. We would appreciate your help and support in moving S. 346 through the Committee favorably so that we can get this important bill to the floor before the summer recess. This legislation would give garment manufacturers and workers much-needed opportunities to compete for business with the federal government. It would signal to our members that they do not need to get themselves sent to prison in order to keep their jobs making clothing. And it would give federal agencies more and better contracting choices, and a more stable industrial base. Thank you.

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

815 SIXTEENTH STREET, N.W.
WASHINGTON, D.C. 20006

JOHN J. SWEENEY
PRESIDENT

RICHARD L. TRUMKA
SECRETARY-TREASURER

LINDA CHAVEZ-THOMPSON
EXECUTIVE VICE-PRESIDENT

LEGISLATIVE ALERT!

(202) 637-5090

April 13, 2004

Peter G. Fitzgerald, Chairman
Subcommittee on Financial Management
Senate Government Affairs Committee
Washington, D.C. 20510

Senator Daniel Akaka
Ranking Minority Member
Senate Government Affairs Committee
Washington, D.C. 20510

Dear Chairman Fitzgerald and Ranking Member Akaka:

On behalf of the more that 13 million members of the AFL-CIO and its affiliated unions, I urge you to support S. 346, the Federal Prison Industries Reform Act.

The AFL-CIO has a longstanding policy of supporting efforts to provide training opportunities for prisoners to help in their rehabilitation and to reduce recidivism. We have cautioned, however, that prisoners should never be used in competition with or to replace non-inmate labor. We believe S. 346 provides much-needed reform to the Federal Prison Industries (FPI) program. It would require federal agencies to notify both FPI and private sector vendors of their particular product needs, and then to select the best proposal based on price, quality and time of delivery.

The bill also includes a "safety valve" to protect the safety of prison guards by granting special authority to the U.S. Attorney General to award a contract to FPI if losing the particular prison work would endanger the safe and effective administration of a prison facility. In addition, we urge the committee to include in S. 346 the House-passed amendment to H.R. 1829 that would make vocational training, practical remedial education, and not-for-profit work more widely available to inmates.

Sincerely,

William Samuel, Director
DEPARTMENT OF LEGISLATION

c: All members of the Subcommittee on Financial Management

STATEMENT FOR THE RECORD

OF DELCO REMY INTERNATIONAL, INC.

We appreciate the opportunity to submit a written statement for the record regarding Delco Remy International's correctional industries program as it pertains to Section 3 of Senate Bill 346, "To Amend the Office of Federal Procurement Policy Act to establish a government-wide policy requiring competition in certain executive agency procurements, and for other purposes."

Delco Remy is one of the leading manufacturers and refurbishers of automotive components in the world. Integrating correctional industries along with a variety of lean industrial engineering initiatives has enabled Delco Remy International to survive in a highly competitive global marketplace—a marketplace that has not only slashed Delco Remy's sales prices but has resulted in the insolvency of many of Delco Remy's competitors during the past decade.

Delco Remy International respectfully submits that Section 3 of S. 346 (Federal Prison Industries Reform Act) pertaining to the prohibition of service agreements should be deleted. **If service agreements were prohibited, Delco Remy – which currently has three such agreements in South Carolina and Virginia - would be forced to pay offenders the higher of minimum wage or the prevailing wage for the area in which such jobs are located. This is tantamount to compelling Delco Remy to move these operations abroad.** In today's global economy, there simply is no way in which Delco Remy can competitively price its products without the use of low-cost labor. Many major companies are in the process of moving a portion of their operations abroad; some have moved their entire operations to foreign countries.

We live and work in a different world now, and it has forced us to look to countries with lower labor costs, as we are continually pressured by our customer base to reduce costs in the products that we produce and refurbish. **Through the use of correctional services, Delco Remy has been able to preserve over 1,100 civilian jobs in Virginia and South Carolina.** With a total of nearly 3,000 civilian employees in the United States, Delco Remy continues to maintain a strong presence in this country; correctional industries is one of many initiatives exercised to maintain this presence and to ensure the company survives intense competition from abroad.

Delco Remy is committed to employing American workers. Using service agreements with correctional institutions helps ensure that Delco Remy can keep both civilian and inmate jobs here in the United States, and provides significant work experience to participating inmates that helps reduce recidivism once they are released from confinement.

Delco Remy's South Carolina Correctional Industries Program

Delco Remy's agreement with the South Carolina Department of Corrections has provided 125 jobs for inmates, and prevented the relocation of 500 civilian jobs to Mexico. The State of South Carolina receives $923,000 annually in Delco Remy payments as well.

In 1997, our transmission servicing operation in Summerville, South Carolina was considering relocating its factory to Mexico in response to increasing cost-cutting pressures from its customs. At about the same time, we were approached by the South Carolina Department of Corrections who offered us the opportunity to relocate some of our work processes from our civilian factory in Summerville to a correctional facility in Leiber, South Carolina. We constructed a factory building within the correctional facility at our own expense and commenced production in September, 1998. Our $2,000,000 investment in constructing a building and purchasing equipment & machinery preserved the civilian factory of 500 employees in Summerville and no one was laid off as a result of this. The role of this factory was, and continues to be, to disassemble and clean transmissions to be reassembled in the civilian factory in Summerville, South Carolina. The factory in Leiber Correctional Institution has enabled us to compete with foreign labor.

The services agreement with the South Carolina Department of Corrections ensures that we can keep both civilian and offender jobs within the United States. Delco Remy pays $4.00 per offender hour to the State, and the State pays between 35 cents to $1.10 per hour to the offender workers (the difference between what we pay and amount the offenders receive is used to help fund a program for victim restitution as well as help pay the cost of operating the correctional institution). Because of challenges unique to operating a factory in correctional facility (versus a civilian factory), Delco Remy utilizes more offenders for jobs in the correctional facility operations than it would ordinarily require in its civilian factories and, therefore, to ensure financial viability of the program, the offenders are paid a sub-minimum wage. It is not uncommon to have "lockdowns" within the entire correctional facility, causing us to lose productivity for several days at a time. If there is a heavy fog, offenders are not released from their dormitories to work. Offenders are frequently transferred from our correctional facility to other correctional facilities with little or no notice, causing a disruption to our operations. Many of the offenders at Leiber suffer medical problems that require special accommodation through frequent medical treatment. Moving product in and out of the correctional facility is a very time-consuming procedure with costly delays. Contractors charge us a premium to service our equipment and machinery because of delays to enter and exit the factory within the walls of the correctional institution. With the significant inefficiencies inherent in a correctional industries environment, it is most difficult for a "for-profit" company to develop a business case for operating a factory within a correctional facility. A sub-minimum wage, as afforded by service agreements, enables correctional industries to be competitive with foreign labor and, as such, Delco Remy has repatriated work from China and Malaysia to the United States.

If S. 346 were to pass with the prohibition of service agreements, South Carolina would lose not only $923,000 annually in additional revenues through Delco Remy's payments for offender labor, but it would also lose 111 inmate jobs that would be relocated to San Luis Potosi, Mexico; these offenders would once again be dependent on receiving monies from home, causing a hardship for many of these families who are often already struggling to "make ends meet." The absence of these jobs would also increase the likelihood of disruptions in the correctional facility as gainful employment not only

teaches the offenders new skills but keeps them busy most of the day, providing a safer environment for correctional officers and civilian workers within the correctional facility. As a matter of policy, Delco Remy offers jobs in our civilian factories to any interested ex-offenders who successfully worked in our correctional industries programs.

Delco Remy's Virginia Correctional Industries Program

Delco Remy's agreement with the Virginia Department of Corrections and Federal Prison Industries has provided 430 jobs for inmates in Virginia (230 offenders with the state and 190 offenders with Federal Prison Industries). The Commonwealth of Virginia receives $1,732,224 annually in Delco Remy payments, and Federal Prison Industries receives $1,422,720 annually.

Since opening a factory in Leiber Correctional Facility in South Carolina, Delco Remy has opened refurbishment factories in a state correctional facility in Culpeper, Virginia and a federal correctional facility in Petersburg, Virginia. The Petersburg and Culpeper operations are worthy substitutes for our traditional production model of having low-variety, high-volume production capacity in low-labor-cost countries while maintaining high-variety, low volume production in the United States. Again, these operations were initiated with the understanding that civilian workers would not be displaced by such operations. For the Culpeper operation, Delco Remy pays $3.47 per offender hour to Virginia, and Virginia pays either 65 cents or $1.25 (depending on length of service) per hour to the offender workers. For the Petersburg operation, Delco Remy pays $3.60 per offender hour to Federal Prison Industries and Federal Prison Industries pays either 65 cents or $1.25 (depending on length of service) per hour to the offender workers.

As is the case with our South Carolina correctional industries operation, if service agreements were to be prohibited, we would be required to close both correctional facility operations in Virginia, and these jobs would be relocated to existing operations in San Luis Potosi, Mexico and/or Xiamen, China, resulting in the loss of 430 offender jobs in Virginia.

In addition, through our service agreements with the Virginia Department of Corrections and Federal Prison Industries, we currently pay $1,732,224 annually to the Commonwealth of Virginia and $1,422,720 to Federal Prison Industries for offender workers. These revenues would disappear if service agreements were to be prohibited.

Why Delco Remy's Correctional Institutional Programs Work

1. **Service agreements with correctional facilities add jobs for American civilian citizens, and prevent the relocation of these jobs to other countries.**

As described above, our correctional facility operations actually add jobs, rather than displace American workers. Our contracts with the State of South Carolina, the

Commonwealth of Virginia and Federal Prison Industries state that civilian workers shall not be displaced by the activities we place in the correctional facility operations. In addition, when we service products in correctional facilities we tend to source a majority of our component parts from U.S.-based vendors. Since beginning our correctional industries programs, we have added 99 civilian jobs in Virginia and in South Carolina.

Moreover, the location of these jobs in the United States helps ensure that related parts and support services foster activity in both local and national economy. The competitive realities of today's automotive parts manufacturing and refurbishment world is that this is work that would otherwise be performed, as much of it currently is, in Mexico and Asia. Like our competitors, much of our refurbishment of parts is done so abroad. And when these products are serviced in Mexico and China, a majority of the component parts and materials used in the servicing process are procured from vendors in these countries. Therefore, servicing our products in U.S. correctional facilities is much better for the U.S. economy and the U.S. job market than servicing them in Mexico or China. If S. 346 becomes law without deletion of Section 3, it will most certainly result in the loss of U.S. jobs.

2. **Since any of Delco Remy's competitors can enter into service agreements with correctional facilities, these agreements are well within the realm of fair competition.**

U.S. companies, including our competitors, are flocking to develop operations in Mexico and Asia. Some of them also have operations in correctional facilities. Both small and large businesses can participate in correctional industries with service agreements and, in fact, most companies that have operations within correctional facilities are small businesses.

In Virginia, there are over 30,000 offenders incarcerated at any one time and there are over 2,000,000 people incarcerated nationwide. Delco Remy employs a total of 351 offenders in its state correctional operations and 190 offenders in its federal correctional operation, leaving hundreds of thousands of offenders seeking gainful work. Any of our competitors who are not currently using offender labor have the same opportunity to use it as we do. (Recently, one competitor ceased using correctional industries labor because they secured lower costs by relocating to Mexico.)

3. **Delco Remy's program of employing offenders provides them with valuable work experience and reduces recidivism.**

Since 94% of all those incarcerated will eventually be released into society, work experience assists our correctional institutions in preparing offenders for a stable transition into society. According to some studies, work experience can reduce recidivism by up to 60% (Pride Enterprises of Florida). **Most offenders learn what it means to "get up each morning and go to a job" for the first time in their lives. This would not be possible if service agreements were to be prohibited.**

It is important to note that all of the workers in our correctional facility operations are working because they desire to work. No one is required to work for us and any offender may resign at any time without providing notice to us. Offenders consider Delco Remy jobs very desirable because they provide:

* real-life work experience (the first "real" job for many offenders)
* hand-tool skills amenable to various trade jobs
* compensation that is significantly more than traditional correctional work programs such as floor sweeping, food preparation, and litter collection.

In fact, some offenders have come to work for Delco Remy following their release from incarceration.

Delco Remy provides a safe working environment for all of its offenders, as our correctional industry factories must adhere to the same high standards for safety and cleanliness as our civilian factories. Offenders receive the same mandatory safety education and training programs that are provided to our civilian employees. The environmental regulations in our correctional facility operations are just as strict as in our civilian operations. (Our operation in the Federal institution in Petersburg was delayed by more than six months in obtaining all of the necessary operating permits from the Virginia Department of Environmental Quality.) Moreover, because Delco Remy's staff within the correctional facility must work in an OSHA-compliant environment, the correctional facility factories adhere to OSHA rules and regulations.

We are very proud of our correctional industry programs and we strongly encourage those who are interested to tour these operations. Although Delco Remy is a US-owned company with a 110-year history, there are no government mandates requiring our continued existence. Surviving in the new global economy has been a struggle despite our significant capital investments to procure state-of-the-art equipment and machinery, as well as having introduced the most modern lean refurbishment techniques to all of our factories. These items, in-and-of themselves, have not been sufficient to be competitive. Our continued survival has required us to develop production capacity abroad. Correctional industries have enabled us to slow down, and we hope halt long-term, the exodus of many jobs leaving U.S. soil for Mexico and Asia.

FMA

Federal Managers Association

Testimony
Submitted for inclusion into the record
United States Senate
Senate Government Affairs Committee
Subcommittee on Financial Management, the Budget and International Security
April 7, 2004

Submitted on April 16, 2004

Federal Prison Industries Reform, S. 346: An Act of Good Stewardship

Statement of
Michael B. Styles
National President
Federal Managers Association

1641 Prince Street • Alexandria, VA 22314 • (703) 683-8700 • FAX: (703) 683-8707 • info@fedmanagers.org • www.fedmanagers.org

Chairman Fitzgerald, Ranking Member Akaka and Members of the Senate Subcommittee on Financial Management, the Budget and International Security:

My name is Michael B. Styles and I am the National President of the Federal Managers Association (FMA). On behalf of the nearly 200,000 executives, managers, and supervisors in the Federal Government whose interests are represented by FMA, I would like to thank you for allowing us to submit our views regarding the Federal Prison Industries (FPI) reform measure, S. 346, before your committee.

Established in 1913, FMA is the largest and oldest Association of managers and supervisors in the Federal Government. FMA has representation in nearly 30 different Federal departments and agencies. We are a non-profit advocacy organization dedicated to promoting excellence in government. As those who are responsible for the daily management and supervision of government programs and personnel, our members are keenly aware of the important role they play in ensuring efficient and effective service to the American people.

FEDERAL MANAGERS CARE ABOUT HOW TAXPAYER DOLLARS ARE SPENT

The main message that FMA wants to convey to you and Members of the Subcommittee is that Federal managers and supervisors – and the civil servants we lead – try extremely hard to be good stewards of the tax dollars entrusted to us. We dedicate ourselves daily to delivering to the American people the most value for their hard-earned dollars. Routinely, we are called upon to do it "better," "faster," and "cheaper." "Doing more with less" is the norm, not the exception.

In our view, the FPI mandatory-source requirement ties the hands of Federal managers when it comes to making smart purchasing decisions. While combating inmate idleness and providing 21 percent of the inmate work opportunities for Federal prisoners are important public policy objectives, the cost of the FPI program should not be transferable to the increasingly tight budgets of other agencies with their own missions in service to the American people.

That is why FMA supports passage of S. 346,which would eliminate this mandatory-source requirement burdening Federal agencies.

No doubt that you will hear from the FPI staff about how many waivers FPI grants, permitting Federal agency managers to make purchases from the private sector. The statistics may sound impressive, but I would ask you to consider some fundamental questions about the waiver process and how it works.

To begin, why should Federal managers be required to seek FPI's permission before being able to spend the money of American taxpayers in the best possible manner? Under the waiver process, FPI – rather than the buying agency – determines whether FPI's offered product, delivery schedule, and reasonableness of FPI's offered price meet the needs of the agency. Waivers are not granted on the basis of price unless FPI's offered price exceeds the statutory standard of "current market price." Current market price is not the same thing as a "fair market price" and is substantially different from the "best

1641 Prince Street • Alexandria, VA 22314 • (703) 683-8700 • FAX: (703) 683-8707 • info@fedmanagers.org • www.fedmanagers.org

value" standard that applies to competitive procurements. Rather, the buying agency can be required to pay FPI's offered price provided that FPI's offered price does not exceed the highest price offered to the government for a comparable product. Therefore, no actual sales need to be made for the standard to be met.

A 1998 General Accounting Office study (GAO/GGD-98-151) of 20 FPI products found that "FPI generally did not offer Federal agencies the lowest prices for products that they purchased. Therefore, if it were not for FPI's mandatory source status, customer agencies might have decided to purchase comparable products at less cost." This assessment is consistent with the anecdotal experiences of our members.

FMA members are also concerned that it frequently takes longer to receive products from FPI than from other commercial vendors. Another GAO report (GAO/GGD-98-118) regarding the timeliness of FPI deliveries showed similar results. In more than 50 percent of the cases reviewed the actual delivery date was later than the buying agency had originally requested. Again, this is congruent with the experiences of our members.

Small businesses in the private sector, on the other hand, strive hard to keep costs low, quality good, and delivery services efficient. Otherwise, they would find themselves out of business. Consumers benefit from their efforts. These benefits do not exist when a business holds its customers hostage, as is the case with FPI and Federal agencies.

Aside from the questionable policy of placing the burden on a Federal manager to have to request and justify a waiver request, the waiver process itself raises substantial issues. The initial consideration of the request is undertaken by the FPI sales division, which will take the contract if the waiver is not granted. More recently, FPI has begun to utilize contract sales representatives, paid on a commission basis, to augment its own marketing staff. Thus, it seems reasonable to FMA to presume that neither FPI's own marketing force nor its contract sales force have much incentive to initially grant a waiver.

A Federal manager willing to invest yet more time and effort can take an appeal of a waiver denial to FPI's Ombudsman, a member of FPI's senior management team. Federal managers feel that the decision to grant a waiver – either initially or on appeal – is a unilateral decision made by FPI without the benefit of any standards upon which to independently assess FPI's actions.

Like the underlying mandatory-source status it is designed to buttress, FPI's waiver process presents the Federal manager with a "stacked deck" that may not be worth pursuing, unless accepting FPI's product or delivery schedule would substantially impede the attainment of the buying agency's mission, or FPI's price constitutes an egregious waste of the buying agency's limited operating budget.

Some have sought to cast the ongoing debate regarding FPI reform as a simple economic clash over government business between FPI and the business community. I am here to tell you that the current system also places an unacceptable burden on Federal managers in terms of both mission accomplishment and the quality of work life. If FPI were to deliver a quality product, on time, and at a reasonable price, then FPI will be able to compete, Federal agencies would give the American taxpayer

more "bang for their buck," and inmates would be given an opportunity to truly learn the skills they will need in the outside job market.

If FPI's product does not represent the "best value" for the tax dollars expended, FPI's captive Federal agency customers are then being forced to use their scarce resources to subsidize FPI's program to create inmate work opportunities. In turn, Federal workers are being forced to make do with products of lesser quality and suffer the consequences of delayed deliveries – consequences that can adversely affect their ability to perform their jobs as well as the quality of their services.

SCARCE RESOURCES GREATLY HEIGHTENS COST CONSCIOUSNESS

As taxpayers first and civil servants second FMA members want to see their tax dollars used in the most productive manner possible. A factor in our heightened concern about making the best use of scarce agency resources is the mandated increase in public-private competition for Federal functions.

Federal functions performed by civil servants are being subjected to unprecedented competition with the private sector. As part of the President's Management Agenda and in subsequent memoranda from the Office of Management and Budget, Federal agencies have been called on to increase public-private competitions as well as provide more in-depth justification of what constitutes an "inherently governmental" position in adhering to revision to OMB Circular A-76.

The Bush administration has called for up to 850,000 Federal jobs to be put up for competition in the coming years, yet Federal prisoners do not have to compete – they are guaranteed a job. Hardworking Federal employees not only have to worry about their job being put up for public-private competition, but the same government that is mandating the competition is placing Federal workers at a disadvantage by not allowing them to purchase needed goods at a reasonable price.

In this time of increased scrutiny on the use of taxpayer dollars by the government, it is necessary to remove the mandatory-source status held by FPI so that Federal agencies are able to purchase the products they need at the best value possible.

LIFTING MANDATORY SOURCE WOULD ENABLE AGENCIES TO GET BETTER DEALS

The Federal Government spends more than $235 billion a year on goods and services. Between $110 and $120 billion of this amount is spent on contracting-out for services. The remainder is spent on products. Current law requires us to purchase over half a billion dollars' worth of supplies from FPI. The almost $700 million in annual sales for FPI in this context is significant.

Section 811 of the fiscal 2002 National Defense Authorization Act removed FPI's mandatory-source status for the Department of Defense (DOD). The provision allows the Secretary of Defense to conduct market research before being forced to purchase inmate-manufactured goods from FPI. If prisoner-manufactured products are not comparable to private-sector products in price, quality, and time of

1641 Prince Street • Alexandria, VA 22314 • (703) 683-8700 • FAX: (703) 683-8707 • info@fedmanagers.org • www.fedmanagers.org

delivery, DOD contracting officers can purchase with taxpayer dollars the best and most cost-efficient goods from other private vendors rather than be forced to buy from FPI.

As part of the fiscal 2003 National Defense Authorization Act, Congress passed language (Sec. 819) which strengthened the enforcement of the provision passed in the FY02 Defense Authorization bill. Section 819 will:

- ✓ make explicit that DOD contracting officers are empowered to determine if a product offered by FPI is "comparable to products available from the private sector that best meet the Department's needs in terms of price, quality, and time of delivery";
- ✓ provide DOD contracting officers the full range of "market research" tools to make the required comparability determination;
- ✓ make explicit that the full range of competitive procurement techniques are available to a DOD contracting officer, including making a purchase through a GSA Multiple Award Schedule contract;
- ✓ prevent FPI from referring to the FPI Arbitration Review Panel, established by Section 4124(b) of FPI's 1934 authorizing statute, allowing an FPI challenge of a DOD contracting officer's determination regarding the comparability of a product offered by FPI; and,
- ✓ empower DOD contracting officers to ensure that FPI "performs its contractual obligations to the same extent as any other contractor for the Department of Defense."

As has been done with DOD, S. 346 is the next step in releasing the rest of the Federal government from the captivity of mandatory-sourcing through FPI.

CONCLUSION

In closing, Mr. Chairman, Federal managers and supervisors are currently receiving two conflicting messages from Washington, DC. On the one hand, we are being asked to "do more with less." From Congress, we frequently hear that the bureaucracy should act more like the private sector. In contrast, the law requires us to purchase over half a billion dollars' worth of supplies from a non-competitive source that frequently charges more than other commercial vendors.

We are simply asking that the FPI Board of Directors and the FPI management staff allow us to be better stewards of the taxpayers' hard-earned dollar by untying our hands when it comes to making smart purchasing decisions for the Federal government.

Thank you again for providing FMA an opportunity to present our views and we look forward to working with you on this important issue.

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1641 Prince Street • Alexandria, VA 22314 • (703) 683-8700 • FAX: (703) 683-8707 • info@fedmanagers.org • www.fedmanagers.org

STATEMENT FOR THE RECORD OF FRANKLIN SPORTS, INC.

April 14, 2004

The Honorable Fitzgerald
Via e-mail to: mike_russell@govt-aff.senate.gov
Washington, DC 20510

Dear Senator Fitzgerald:

I am writing to you today to alert you to the detrimental impact that **S. 346, a bill to amend the Office of Federal Procurement Policy Act**, will have on Franklin Sports, Inc. should it become law. This bill is scheduled on the calendar of the U S Senate Committee on Governmental Affairs Subcommittee on Financial Management, the Budget, and International Security on April 6, 2004 at 2:30 PM Eastern time. **We respectfully request that you oppose S. 346.**

Private sector companies who supply to or partner with correctional industries are working together to educate Congress about the harmful public policy implications of **S. 346 in general, and specifically Section 3.**

Generally, S. 346 amends and updates the federal government's procurement rules concerning purchases of inmate-manufactured commodities and services. Because of a provision in this bill (Section 3) that is injurious to the state, local and Federal correctional industry programs, **we cannot support S. 346.**

This legislation **would place an unfair and expensive federal mandate on the states' and localities' right to self determine the management and operation of their departments of correctional industries and would cause companies such as Franklin Sports, Inc. to lose jobs and revenue.**

To provide you and your staff with more information on this important issue, the following are some principal facts about this legislation's economic and rehabilitative impact:

- The loss of jobs nationwide to over 2000 private sector businesses that partner with correctional industries as suppliers and vendors would be significant.
- The loss of revenue to local and regional private sector businesses that partner with correctional industries as suppliers and vendors would be significant.
- Hundreds of civilian employees managing and supervising correctional industries would be placed at risk to lose their jobs if S. 346 passes.
- S. 346 would abort more than $20 million dollars in state annual gross revenue generated by correctional industry service operations that help support fiscally strapped state and local economies.

- The National Correctional Industries Association (NCIA) has calculated statistical figures showing the combined harm to states, if S. 346 passes. Nationwide, over 2,700 state inmates would be idled. And, as a direct result of S. 346's passage, these idle prisoners would lose an important opportunity to develop work ethic, reentry readiness and transferable job skills in preparation for legitimate employment post-release.

- Criminology/corrections research shows that inmates who do not work in correctional industries while incarcerated experience three times the likelihood of returning to a life of criminal activity and victimization on the streets - and recommitment to prison.

As you consider S. 346, please understand the devastating impact Section 3 of the bill would have on several thousand private sector companies like ours and the states and localities including the civilian employees who work for these programs. **It is imperative that you take immediate steps on behalf of Franklin Sports, Inc. to prevent the damage of S. 346 from occurring.**

Thank you for your assistance in assuring that Franklin Sports, Inc. and the many other private sector businesses retain our ability to properly manage our operations within the continental United States while providing adequate opportunities for inmates to learn job skills while incarcerated. Your efforts will not only help support the safe management of our correctional facilities, but also prevent the loss of significant revenue to the many private sector businesses that partner with or are suppliers for these programs.

Sincerely,

FRANKLIN SPORTS, INC.

Don Loiacano
Vice President, Operations

DL/dmz

TENNESSEE REHABILITATIVE INITIATIVE IN CORRECTION (TRICOR)

WRITTEN STATEMENT ON THE OFFICE OF FEDERAL PROCUREMENT POLICY ACT S. 346

SUBMITTED TO

THE UNITED STATES SENATE

THE SENATE GOVERNMENTAL AFFAIRS SUBCOMMITTEE ON FINANCIAL MANAGEMENT, THE BUDGET AND INTERNATIONAL SECURITY

The Honorable Peter Fitzgerald, Chairman

Statement Submitted By:

Patricia Weiland, Executive Director
Tennessee Rehabilitative Initiative in Correction (TRICOR)
President of the National Correctional Industry Association (NCIA)
240 Great Circle Road, Suite 310
Nashville, Tennessee 37228-1734
(615) 741-5705

Position Statement

I appreciate the opportunity to provide a written statement concerning the adverse impact of Section 3 of Senate Bill 346 on state correctional industry programs. This legislation would have harmful and unintended consequences for many state correctional systems in the nation. The immediate impact on the state correctional industries would be a loss of $19.8 million in annual gross revenue and severe legal ramifications. The loss of revenue to our private sector suppliers would be in excess of $9.5 million annually. The loss of inmate jobs to the state correctional systems would be at least 2200 resulting in the potential need for increased state funding.

The long term ramification on the recidivism rate and the cost to the taxpayers will be devastating if S. 346 is passed in its current form. Inmates who participate in work programs are 20% less likely to recidivate than inmates who do not participate in these programs. There were 600,000 inmates released from prison in 2003. Statistics show that the overwhelming majority of inmates currently incarcerated will eventually be released from prison and it is in everyone's best interest that they have job skills and work training. Section 3 of S. 346 would eliminate all states ability to operate service industry programs as currently structured.

Introduction

I am Patricia Weiland, Executive Director of the Tennessee Rehabilitative Initiative in Correction (TRICOR). TRICOR operates the correctional industry program in Tennessee. I am also the current President of the National Correctional Industry Association (NCIA). The NCIA is a professional organization of individuals, agencies and companies both public and private, committed to promoting excellence and credibility in the field of correctional industries.

First I would like to provide an overview of correctional industries and the role it plays in the correctional system.

Overview

Correctional industry programs provide work and training opportunities for men and women incarcerated throughout the country. These programs currently work and train over 81,000 inmates annually. This accounts for approximately 18% of the eligible prison population. Inmates actively engaged in these programs worked 117.8 million hours in 2003. These programs provide a multitude of benefits including cost effective solutions to prison management and inmate programming, significant training and job skill development opportunities, a reduction in the cost of incarceration and government operations and a reduction in recidivism.

All states and the federal government operate correctional industry programs. There are currently over 8,500 civilian staff employed in the correctional industry field. These

programs purchase raw materials, supplies and services from thousands of private sector businesses nationwide. Forty-nine correctional industry programs are operated on a self-sufficient basis. In addition, thirty-five programs receive no appropriated funds for capital equipment and thirty-eight programs receive no appropriated funds for construction.

Training opportunities for the inmates involved in these programs are provided in a variety of areas such as animal husbandry, desktop publishing, electronics, graphic arts, inventory management, metal fabrication, printing, product assembly, scanning and imaging, welding and warehousing and distribution, just to name a few.

Benefits of Correctional Industry Programs

1. **Prison Management**

   The management of a safe and secure correctional system is the optimum goal of any governing body. To maintain the necessary balance of safety and security within the correctional environment it is imperative that inmates are kept involved in productive activity. History will show that idleness breeds tension, which often results in violence.

   You need look no further than the correctional system in Tennessee, which was one of a number of states in the 1980's and 1990's involved in class action lawsuits resulting in federal court intervention. *Scotty Grubbs v. the State of Tennessee* was a class action lawsuit filed challenging the conditions of confinement within the Tennessee prison system. At the core of the lawsuit was

overcrowding and inmate idleness. Tennessee was required to begin programming its inmates in productive work and educational activities to aide in reducing violence in the system. The state spent millions of dollars building an infrastructure within its system to provide meaningful education, work and training opportunities for inmates. The occurrence of violent activities was reduced dramatically when constructive programming activities were increased.

2. Job Skills Training Reduces Recidivism

The men and women entering our prisons today are less educated and have fewer job skills than the population as a whole. According to a study conducted by the U.S. Bureau of Justice Statistics, only 59% of state prison inmates had a high school diploma or its equivalent as compared to 85% for the adult population as a whole. The study also disclosed that only two-thirds of inmates were employed during the month before they were arrested for their current offense. Much of this work however was part-time and did not reflect a stable full-time work history.

As noted previously, correctional industry programs offer a myriad of job skills training programs which include animal husbandry, desktop publishing, electronics, graphic arts, inventory management, metal fabrication, printing, product assembly, scanning and imaging, welding, warehousing and distribution, and many more. There is a direct correlation between job skills training and successful re-entry. Studies disclose that inmates who participate in work programs while in prison are less likely to recidivate than those who do not

participate in these programs. The average recidivism rate for work program participants is 20% less than non-program participants. The net effect of this reduction in recidivism to correctional systems, state and federal budgets and the taxpayers is monumental and long lasting.

After release from prison, maintaining a legitimate job is probably the best opportunity a former inmate has for restoring legitimacy to his or her life and to compensate for the negative stigma of having a criminal record. Therefore involvement in job training and work programs is critical to long-term rehabilitation and re-entry efforts.

3. Reduces the Cost of Incarceration and Government Operations

The majority of states and the federal government are faced with shrinking resources and growing prison populations. A disproportionate amount of government revenue is being used to build and operate prisons at both the state and federal level. The majority of correctional industry programs are self-supporting and do not rely on appropriated funds for their daily operating revenue.

For example, it costs the Tennessee Department of Correction an estimated $3,000 per year to program an inmate in a work or education program. There is however no cost to the department to program an inmate in a TRICOR operation. Inmates that participated in TRICOR training and work programs last fiscal year

saved the state approximately $3 million in programming costs. It is conservatively estimated that the programming costs saved by correctional systems nationwide, as a result of correctional industry programs operating as self-supporting entities, exceeds $80 million annually.

In many instances, correctional industry programs also reduce the cost of government in general. In Tennessee, inmate labor is used for a variety of programs including contracts with the Department of Safety, the Department of Education, and the Department of Finance and Administration. These programs use inmate labor to provide services which save the State of Tennessee and the taxpayers millions of dollars. In a time of severe budget cuts, partnerships such as these allow the state to continue to provide the services that its citizens expect in a timely, cost efficient manner.

4. Positive Economic Impact

Correctional industry programs have a significant positive economic impact on local economies in particular and the private sector in general. These programs purchase raw materials, supplies and services from thousands of private sector vendors nationwide. For example, TRICOR purchases products and services from an average of 400 different vendors each year. These purchases are in excess of $9.5 million annually. Compounding this to all states and the federal government makes the economic impact significant.

Correctional industry programs also partner with the private sector to manufacture products and provide services. The benefits of these programs are far reaching for both parties involved. A significant benefit for the correctional system is the positive influence of "real world" business practices and job training in the correctional industry environment. The net effect of this is to make all industry programs more cost efficient and effective.

Negative Impact of S. 346 on State Correctional Industry Programs

Senate Bill 346, Section 3 in particular, will have a significant negative impact on a number of state correctional industry programs. Section 3 of S. 346 amends 18 USC 1761 (a) and (c) at the federal, state, and local levels to prohibit the interstate sale of services furnished wholly or in part by prisoners. This section of the bill will force federal, state and local correctional industries operating service programs to convert them to Prison Industry Enhancement (PIE) programs under the U.S. Department of Justice certification within 180 days or be forced to close permanently. The modification of these programs to PIE would most likely not be a viable alternative for the companies involved. It is anticipated that this would result in either closing down the operations or moving them out of the country. Currently, at least twenty states operate service industry programs that would no longer be allowed to operate if this bill passes in its current form. S. 346 would require states to completely phase out its service programs within 180 days of enactment of the bill. This causes a multitude of problems for the states, which include the following.

1. **Loss of Substantial Revenue**

The states currently operating service industry programs would lose in excess of $19.8 million in annual gross revenue. This is a substantial loss and would have a serious detrimental effect on these programs.

2. **Loss of Inmate and Civilian Jobs**

The states currently operating service industry programs would lose in excess of 2200 inmate jobs and 120 civilian jobs. The loss of these inmate jobs would have a significant negative impact on the operation of these correctional systems. It is anticipated that the civilian jobs lost would not be regained in the private sector because the operations would most likely close or move out of the country.

3. **Negative Economic Impact**

Service industry operations currently purchase raw materials, supplies and/or services from at least 2,176 private sector suppliers. It is estimated that these purchases are in excess of $9.5 million. This loss would have an immediate adverse impact on the state economies.

4. **Severe Legal Ramifications**

Service industry programs are operated under contracts with private sector partners. States will be required to cease operations within 180 days of enactment of the bill thus placing the states in jeopardy of serious legal ramifications. The cost of litigation for the states will be significant.

5. **Unfunded Mandate**

The passage of S. 346, Section 3 would immediately eliminate over 2200 inmate jobs. Each state would be forced to reprogram these inmates in other training and work programs which would be funded through appropriated dollars. It would be necessary for each state department to increase its funding to meet these obligations. For example, the State of Tennessee would lose 236 inmate jobs and would incur a cost of $708,000 to reprogram these inmates into alternative training and work programs. The net affect of this bill results in a significant unfunded mandate to the states.

I have noted that there are many significant and long lasting benefits to operating correctional industry programs. These programs have a positive impact on prison management, provide job skills training which reduces recidivism, reduce the cost of incarceration and government operations and lastly, have a positive impact on the economy.

Correctional industry programs are widely praised for their contribution to the safe and secure operation of all correctional systems throughout this country and the significant

effect these programs have on recidivism. The operation of self-funded training programs that have the ability to keep men and women from returning to prison is a win-win situation for government, the private sector and the taxpayers. These programs are the unsung success stories in rehabilitation and re-entry.

I strongly encourage Members of the Committee to discuss the benefits of your correctional industry program with your Governor. It is significant that all states currently involved in service industry operations would lose their ability to continue these operations as currently structured. It is equally as significant that all states would lose the ability to operate these programs in the future. This does not make sense for the state correctional systems or the taxpayers.

Based upon the information I have provided and the concerns I have noted about Section 3 of S. 346, I strongly urge the deletion of this section from the bill so that state correctional systems may operate their state industry programs in the best interest of their governing body.

I appreciate the opportunity to submit a written statement for the record. I am available to further discuss my position or answer any questions you may have. /

POWER CONNECTOR INC.

140 Wilbur Place Bohemia, New York 11716 Phone (631) 563-7878 Fax (631) 563-6482
Alternate Fax (631) 244-8753

April 15, 2004

The Honorable Peter G. Fitzgerald
Chairman
Senate Governmental Affairs Subcommittee on Financial
Management, the Budget and International Security
446 Senate Hart Building
Washington, DC 20510

Dear Chairman Fitzgerald,

I am grateful to you for the opportunity last few week to testify before you regarding Senator Levin's bill, S. 346. I am appreciative as I believe the story of the private sector businesses who are positively impacted by FPI MUST BE HEARD. I am hopeful that my testimony assisted you and other Members in understanding the serious impact that S. 346 will have on small businesses like mine and women-owned and disadvantaged businesses in your state and across the country who currently hold contracts with FPI.

I also wanted to respond for the record to questions that some of the Members of the Subcommittee asked that I believe need further clarification. Much of the testimony provided on April 7, 2004 was in reference to whether or not FPI would lose significant amounts of business if the mandatory preference was eliminated. During my testimony, I mentioned that it was my belief that FPI would suffer with the preference eliminated. This is predicated on the fact that a large majority of the work FPI would lose will be to large business. I also stated that small business will suffer dramatic net losses in the dollar volume that will be subcontracted to them if large business takes business away from FPI. My premise is that large business will perform most of the work themselves that FPI is presently subcontracting to small business. Whereas, FPI has made it their mission to set aside as much material as possible to small businesses, large business is not required to subcontract major portions of their material. FPI advertises publicly for its requirements through small business set asides over the US governments' Federal Business Opportunities(Fed Biz Opps) internet site. In addition to the Fed Biz Opps program, the contracting officers in each FPI facility go out many times daily

seeking small business sources for their requirements. In stark contrast to FPI, large business usually limits their subcontracting efforts to their existing supply networks.

Additionally, some Members of the Subcommittee claimed that FPI/Unicor received indirect subsidies by overcharging their DOD and other customers.
It is a fact that starting in late 1989 CECOM, Fort Monmouth, NJ, SINCGARS program management recognized the competitiveness and capability of FPI and solicited FPI to consider taking on the challenge of trying to assist CECOM in reducing the high costs of the cable and harness components in the SINCGARS program . The effort was a complete success. Since 1989 through today and likely for another 10 years the CECOM JTRS program will be able to utilize the electronic cables via FPI and has already saved the DOD millions of dollars with the potential of savings millions more on the JTRS program if given the opportunity. It was through this SINCGARS program and FPI's involvement that Power Connector Inc. was able to establish itself and grow over the past 15 years

I thank you for your consideration of my views and oppose S. 346.

Andy Linder

U.S. Department of Justice

Office of Legislative Affairs

Washington, D.C. 20530

November 17, 2004

The Honorable Peter G. Fitzgerald
Chairman, Subcommittee on Financial Management,
the Budget, and International Security
Committee on Governmental Affairs
United States Senate
Washington, DC 20510

Dear Chairman Fitzgerald:

This letter responds to inquiries arising out of the April 7, 2004, appearance of Bureau of Prisons ("BOP") Director Harley G. Lappin before the Senate Governmental Affairs Subcommittee on Financial Management, the Budget, and International Security. We appreciate the opportunity to provide the Subcommittee this additional information about the Federal Prison Industries ("FPI") program.

You requested information regarding the activation of new FPI factories, specifically, the portions of each new factory that are paid with appropriated and non-appropriated funds. During the activation process, the BOP uses appropriated funds for the construction of buildings and structures that will support factory operations. The FPI program purchases the equipment for the start-up and day-to-day operation of new factories from revenues derived from the sale of FPI products and services.

You also requested information regarding FPI's annual financial statements. In accordance with the Chief Financial Officer's Act of 1990 (31 U.S.C. § 9106(b)), an independent financial audit of FPI is conducted at the end of each fiscal year. The audit contract is awarded and administered by the Department of Justice's Office of the Inspector General. We have enclosed the most recent audit, conducted by Price, Waterhouse, Coopers, LLP, and FPI's management report relating to fiscal year 2003.

You asked for the date the practice of "pass throughs" was eliminated and for some details about the practice and its elimination. "Pass throughs" were practices previously undertaken when FPI could not meet the delivery date of an order. FPI very rarely used pass throughs because the practice was used only during those infrequent instances in which inmates could not work for a significant period of time, such as during an institution lockdown. When a rare occurrence such as a lockdown interfered with FPI's ability to complete an order, FPI

coordinated with a private vendor to fulfill the order. The practice of pass through was initiated as a last resort in order to meet the delivery schedule and to preserve FPI's relationship with the customer. The FPI program did not increase the price of the items that were passed through and made no money when this practice was employed. The practice of pass through was eliminated entirely by a resolution of the FPI Board of Directors dated October 24, 2002. The resolution directs "that the practice of 'pass-through' of finished goods items that would otherwise be manufactured by FPI be discontinued; and that customers be given the right to accept late delivery, or be granted an immediate waiver to purchase that portion of the order elsewhere . . ." We have enclosed a copy of the resolution and a copy of an electronic mail message from Steve Schwalb, Chief Operating Officer of FPI, to all FPI staff implementing the Board's resolution.

You requested information on the FPI factories in the State of Illinois. The FPI program currently operates three factories in Illinois: a clothing and textile factory at the Federal Correctional Institution in Greenville, an electronic cable assembly factory at the United States Penitentiary in Marion, and a metals factory at the Federal Correctional Institution in Pekin.

You also asked for a complete list of products and services provided by the FPI program to the military. The enclosed list indicates all of the products and services provided to the Department of Defense in Fiscal Year ("FY") 2003 by FPI Business Group. This list also shows the revenue from sales of each product or service to the Department of Defense.

You requested information on BOP's use of contract prisons for the confinement of Federal inmates, specifically asking for the number of facilities, number of inmates, and status of any industry programs at these facilities. As of July 8, 2004, 17,788 Federal inmates (which is approximately 10 percent of the Federal inmate population) are confined in 15 secure contract facilities. The BOP contracts to help manage the Federal inmate population when the contracting arrangement is cost-effective and complements the agency's operations and programs. Fourteen of the 15 secure contract facilities are managed and operated by private companies. One facility is under private management with the line staff comprised of county government employees. None of these facilities has an industry work program. Of the inmates confined in these institutions, 9,609 are sentenced criminal aliens subject to deportation. A recently constructed facility in Philipsburg, Pennsylvania, is awaiting activation and will confine approximately 1,300 inmates (1,000 low-security males and 300 females of all security levels). The BOP also contracts with privately operated community corrections centers (or halfway houses) for the placement of inmates in the community just prior to their release, with local jails for short-term confinement, and with privately operated juvenile facilities. Approximately 9,800 Federal inmates are in community corrections centers, local jails, and juvenile facilities, bringing the total number of Federal inmates under contract confinement to 27,397 (or about 15 percent of the Federal inmate population).

Senator Levin requested an analysis of products that are purchased by the Federal government and that are produced offshore. Several years ago, FPI researched opportunities to

The Honorable Peter G. Fitzgerald
Page 3

produce goods purchased by the Federal government from offshore sources. FPI has not been able to identify significant opportunities primarily because the data required to identify them is not available in sufficient detail. The Federal Procurement Data Center, which is the main source of procurement data for the Federal government, does not have specific data regarding offshore procurement of products. However, to the extent that data was available, it often was skewed by: 1) the inclusion of the offshore opportunity within a larger purchase; 2) procurement from American companies with an overseas presence; 3) difficulty identifying suppliers as foreign due to data limitations; or 4) the use of American companies with foreign subcontractors. Another factor has been the identification of treaties and agreements between the United States and other countries that may prevent FPI from pursuing offshore opportunities. These treaties and agreements have been negotiated between various governments and cannot be rescinded or altered.

Senator Levin also sought details regarding FPI's budget projections. We have enclosed copies of FPI's operating plan for FY 2004, portions of the BOP's narrative budget submission relating to FPI for FY 2004, and FPI's portion of the President's FY 2005 proposed budget.

We appreciate the opportunity to provide this information to the Subcommittee. Please do not hesitate to call upon us if we may be of further assistance. The Office of Management and Budget has advised us that from the perspective of the Administration's program, there is no objection to submission of this letter.

Sincerely,

William E. Moschella

William E. Moschella
Assistant Attorney General

Enclosures
FPI FY 2003 Management Report and Independent Financial Audit
October 24, 2002, Resolution of the Board of Directors relating to "pass throughs"
Electronic communication implementing the above resolution
List of Department of Defense products and services
FPI Operating Plan for FY 2004
FY 2004 narrative budget submission relating to FPI
FY 2005 budget proposal relating to FPI

cc: The Honorable Daniel K. Akaka
Ranking Minority Member

The Honorable Carl Levin

The Honorable Craig Thomas

U.S. Department of Justice

Federal Bureau of Prisons

Office of the Director

Washington, DC 20534

March 18, 2004

The President
The White House
Washington, DC 20500

Dear Mr. President:

In accordance with the Chief Financial Officers Act (CFO Act) of 1990, 31 U.S.C. §9106(b), please find enclosed a copy of Federal Prison Industries, Inc. (FPI) FY 2003 management report and independent financial audit. This report will also be made available via the Internet at www.unicor.gov.

If you should have any questions, or desire further information, please do not hesitate to contact me.

Respectfully,

Harley G. Lappin
Chief Executive Officer

Enclosure

TABLE OF CONTENTS

Report of Management

Responsibility for the integrity and objectivity of the financial information in this report rests with the management of Federal Prison Industries, Inc. The accompanying financial statements have been prepared to conform with United States generally accepted accounting principles (U.S. GAAP).

To ensure the integrity of financial data, FPI management maintains a system of internal accounting controls. The system provides reasonable assurance that transactions have management authorization and are properly recorded. It also safeguards, verifies, and maintains accountability of assets and permits preparation of financial statements that conform with U.S. GAAP. This system of internal controls is subject to periodic reviews by both management and FPI's independent auditors.

Internal accounting and administrative control systems have been reviewed and tested. Accordingly, FPI management provides the following assurances:

1. There are sufficient controls and security measures to compensate for any identified risks associated with the program/system and/or its environment,
2. The program/system is being operated in an effective manner and complies with applicable laws and regulations,
3. There is proper management of the program/system information, and
4. The program/system complies with management, financial, information resources management, accounting, budget and other appropriate standards.

The independent public accounting firm of PricewaterhouseCoopers LLP is retained to audit FPI's financial statements. The role of independent auditors is to provide an objective review of management's responsibilities to fairly report operating results, cash flows and financial position. The independent auditor's reports are presented on the following pages. The report on the fairness of the presentation of the financial statements is unqualified.

The independent auditor obtains an understanding of FPI's internal control sufficient to plan the audit and to determine the nature, timing, and extent of tests to be performed to form an opinion on the fairness of the presentation of the financial statements.

Although management may periodically adopt certain cost-effective recommendations made by the independent auditors to further strengthen FPI's system of internal control, management believes that FPI's internal and accounting control system is accomplishing its objectives.

Harley G. Lappin

Harley G. Lappin
Director, Federal Bureau of Prisons
Chief Executive Officer, Federal Prison Industries

Report of Independent Auditors

PRICEWATERHOUSECOOPERS

Inspector General
U.S. Department of Justice

PricewaterhouseCoopers LLP
1301 K St., N.W., Suite 800W
Washington DC 20005-3333
Telephone (202) 414-1000

Board of Directors
Federal Prison Industries, Inc.
U.S. Department of Justice

We have audited the accompanying balance sheets of Federal Prison Industries, Inc., a financial reporting component of the U.S. Department of Justice referred to herein as the FPI, as of September 30, 2003 and 2002, and the related statements of operations and cumulative results of operations, and cash flows, for the years then ended. These financial statements are the responsibility of the FPI's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of FPI at September 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 11, 2003 on our consideration of the FPI's internal control and a report dated November 11, 2003 on its compliance with laws and regulations. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

PricewaterhouseCoopers LLP

November 11, 2003

Report of Independent Auditors on Internal Control

PRICEWATERHOUSECOOPERS

Inspector General
U.S. Department of Justice

PricewaterhouseCoopers LLP
1301 K St., N.W., Suite 800W
Washington DC 20005-3333
Telephone (202) 414-1000

Board of Directors
Federal Prison Industries, Inc.
U.S. Department of Justice

We have audited the financial statements of the Federal Prison Industries, Inc., a financial reporting component of the U.S. Department of Justice referred to herein as FPI, as of September 30, 2003 and 2002, and for the years then ended, and have issued our report thereon dated November 11, 2003. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.*

The management of FPI is responsible for establishing and maintaining accounting systems and internal control. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that: (1) transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America, and to safeguard assets against loss from unauthorized acquisition, use or disposition; (2) transactions are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements, and any other laws, regulations and government-wide policies identified in Appendix C of OMB Bulletin No. 01-02; and (3) transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by FPI management. Because of inherent limitations in any internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of FPI's financial statements, we obtained an understanding of the design of significant internal controls and whether they had been placed in operation, tested certain controls and assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited our control testing to those controls necessary to achieve the objectives described above and we did not test all controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. Our purpose was not to provide an opinion on FPI's internal controls. Accordingly, we do not express such an opinion.

With respect to internal controls relevant to data that support reported performance measures, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions,

as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal controls over reported performance measures. Accordingly, we do not provide an opinion on such controls.

We noted certain matters in FPI's internal controls that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the entity's ability to meet the internal control objectives described in the second paragraph. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. The reportable condition below is not considered a material weakness.

Technical and security design and implementation of the SAP financial application need improvement.

The remainder of this report discusses the reportable condition in more detail. Our recommendations for corrective action and status of prior year findings and recommendations are also provided.

PricewaterhouseCoopers LLP

November 11, 2003

Detailed information concerning the reportable conditions noted in Federal Prison Industries, Inc., internal control report can be obtained from the Department of Justice, Office of Inspector General for Audit, Office of Policy and Planning, 1425 New York Avenue, NW, Suite 5000, Washington, DC 20530 and from the Internet site at www.unicor.gov.

Report of Independent Auditors on Compliance with Laws and Regulations

PRICEWATERHOUSECOOPERS

Inspector General
U.S. Department of Justice

PricewaterhouseCoopers LLP
1301 K St., N.W., Suite 800W
Washington DC 20005-3333
Telephone (202) 414-1000

Board of Directors
Federal Prison Industries, Inc.
U.S. Department of Justice

We have audited the financial statements of the Federal Prison Industries, Inc., a financial reporting component of the U.S. Department of Justice referred to herein as FPI, as of September 30, 2003 and 2002, and have issued our report thereon dated November 11, 2003 for the years then ended. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

Compliance with laws and regulations applicable to the FPI is the responsibility of management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the FPI's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. However, the objective of our audits of the financial statements was not to provide an opinion on overall compliance with such provisions and, accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations that are required to be reported under Government Auditing Standards or OMB Bulletin No. 01-02.

This report is intended solely for the information and use of the U.S. Department of Justice Office of the Inspector General, the management of the Department of Justice, the OMB, and Congress. This report is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

November 11, 2003

Balance Sheets

Federal Prison Industries, Inc.

September 30 **(DOLLARS IN THOUSANDS)**	**2003**	**2002**
ASSETS		
Current:		
Cash and cash equivalents	$ 187,416	$ 108,247
Accounts receivable, net	65,562	92,883
Inventories, net	146,702	141,847
Other assets	1,890	2,025
Total current assets	*401,570*	*345,002*
Property, plant and equipment, net	116,381	127,202
TOTAL ASSETS	*$ 517,951*	*$ 472,204*
LIABILITIES AND UNITED STATES GOVERNMENT EQUITY		
Current:		
Accounts payable	$ 48,020	$ 44,824
Deferred revenue	126,481	83,834
Accrued salaries and wages	7,268	6,988
Accrued annual leave	8,329	8,065
Other accrued expenses	10,077	12,669
Total current liabilities	*200,175*	*156,380*
FECA actuarial liability	7,932	7,935
Note payable to United States Treasury	20,000	20,000
Total Liabilities	*228,107*	*184,315*
United States Government Equity		
Initial capital	4,176	4,176
Cumulative results of operations	285,668	283,713
Total United States Government Equity	*289,844*	*287,889*
TOTAL LIABILITIES AND UNITED STATES GOVERNMENT EQUITY	*$ 517,951*	*$ 472,204*

The accompanying notes are an integral part of these financial statements

Statements of Operations and Cumulative Results of Operations

Federal Prison Industries, Inc.

Fiscal years ended September 30 **(DOLLARS IN THOUSANDS)**	2003	2002
REVENUE:		
Net sales	$ 666,763	$ 678,655
Other revenue	55,100	38,207
Total revenue	*721,863*	*716,862*
COST OF REVENUE:		
Cost of sales	598,625	603,014
Cost of other revenue	55,958	41,497
Total Cost of Revenue	*654,583*	*644,511*
GROSS PROFIT	*67,280*	*72,351*
OPERATING EXPENSES:		
Sales and marketing	6,983	8,788
General and administrative	72,193	66,529
Total operating expenses	*79,176*	*75,317*
LOSS FROM OPERATIONS	*(11,896)*	*(2,966)*
Interest income	1,941	1,409
Interest expense	(63)	(172)
Other income, net	11,973	10,819
Net income	*1,955*	*9,090*
Cumulative results of operations, beginning of fiscal year	283,713	274,480
Donated property reclasssified to cumulative results of operations	—	143
CUMULATIVE RESULTS OF OPERATIONS, END OF FISCAL YEAR	*$ 285,668*	*$ 283,713*

The accompanying notes are an integral part of these financial statements

Statements of Cash Flow

Federal Prison Industries, Inc.

Fiscal years ended September 30 **(DOLLARS IN THOUSANDS)**	**2003**	**2002**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,955	$ 9,090
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,773	12,404
Loss on disposal of property, plant and equipment	1,748	278
Changes in:		
Accounts receivable	27,321	(4,520)
Inventories	(4,855)	(1,080)
Other assets	136	(190)
Accounts payable and accrued expenses	1,145	7,001
Deferred revenue	42,647	38,657
NET CASH PROVIDED BY OPERATING ACTIVITIES	*81,870*	*61,640*
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(2,593)	(7,771)
Construction-in-progress of plant facilities	(200)	(19)
Construction reimbursement from Bureau of Prisons	92	—
NET CASH USED IN INVESTING ACTIVITIES	*(2,701)*	*(7,790)*
NET INCREASE IN CASH	79,169	53,850
CASH AND CASH EQUIVALENTS, BEGINNING OF FISCAL YEAR	108,247	54,397
CASH AND CASH EQUIVALENTS, END OF FISCAL YEAR	$ 187,416	$ 108,247

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements (Dollars in Thousands)

Note 1
Organization and Mission

Federal Prison Industries, Inc. (FPI) was established in 1934 by an act of the United States Congress. FPI operates under the trade name UNICOR, as a wholly owned federal government corporation within the Department of Justice, and functions under the direction and control of a Board of Directors, (the "Board"). Members of the Board are appointed by the President of the United States of America and represent retailers and consumers, agriculture, industry, labor, the Attorney General, and the Secretary of Defense. FPI's statutory mandate is to provide employment and training for inmates in the Federal Prison System while remaining self-sufficient through the sale of its products and services.

FPI's federal government customers include departments, agencies and bureaus such as the Department of Justice, the Department of Defense, the Department of Homeland Security, the Social Security Administration, and the General Services Administration. These and other federal organizations are required to purchase products from FPI, if its products meet the customer's price, quality, and delivery standards, under a mandatory source preference specified in FPI's enabling statute and the Federal Acquisition Regulation. FPI's source preference may, at some time, be impacted by legislative changes. Subsequent to the end of this fiscal year, the House of Representatives passed H.R. 1829, which if enacted, would eliminate FPI's source preference and require other operational changes. FPI is unable to predict the probability of enactment, or if enacted the impact of this, or other legislation until it is finalized.

As of September 30, 2003, FPI had industrial operations at 112 factories located at 71 facilities within the Federal Prison System; these factories employed 20,274 inmates representing approximately 16% of the total federal inmate population.

Note 2
Summary of Significant Accounting Policies

Basis of Presentation

FPI has historically prepared its external financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP), based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private sector standards-setting body. The Federal Accounting Standards Advisory Board (FASAB) has been designated as the standards-setting body for federal financial reporting entities with respect to the establishment of US GAAP. FASAB has indicated, however, that accounting standards published by FASB may also be in accordance with US GAAP for those federal entities, including FPI, that have issued such financial statements in the past.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Cash and Cash Equivalents

FPI considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. FPI limits its investment activities and cash equivalents to short-term overnight repurchase agreements with the Bureau of Public Debt of the United States Treasury. The market value of these overnight repurchase agreements is equivalent to cost.

Accounts Receivable / Concentration of Credit Risk

Financial instruments that potentially subject FPI to concentrations of credit risk consist primarily of accounts receivable. FPI sells products and services to various federal government departments, agencies and bureaus, as well as certain private sector companies, without requiring collateral. Accounts receivable consists of amounts due from those entities and is stated net of an allowance for doubtful accounts.

Notes to Financial Statements (Dollars in Thousands)

FPI routinely assesses the payment histories of its federal customers and the financial strength of its private sector customers and maintains allowances for anticipated losses as they become evident. In this regard, a significant amount of accounts receivable remained past due at September 30, 2003 and 2002. A majority of these past due items relate to billings to various entities within Department of Defense (DOD) who rely on the Defense Finance and Accounting Service (DFAS) to process vendor payments. Historically, customer payments processed through DFAS have generally taken longer to receive than payments from other federal and private sector customers. FPI believes that ultimately, a majority of its past-due accounts receivable are fully collectable. The amount due FPI from DOD for fiscal years ended September 30, 2003 and 2002 was $54,185 and $74,913 respectively.

While federal accounts receivable are normally fully collectable in accordance with federal law, FPI has established an allowance for future losses against its federal accounts receivable to account for potential billing errors related to pricing and customer discounts, as well as, instances of expired or cancelled funding from its federally appropriated customers. At September 30, 2003 and 2002, FPI's allowance for doubtful accounts is stated at approximately $4,977 and $5,034, respectively, of which approximately $4,329 and $4,447, respectively, represents the amounts allocated against federal accounts receivable.

Inventories

Inventories are valued at the lower of average cost or market value (LCM) and include materials, labor and manufacturing overhead. Market value is calculated on the basis of the contractual or anticipated selling price, less allowances. FPI values its finished good and sub-assembly items at a standard cost that is periodically adjusted to approximate actual cost.

FPI has established inventory allowances to account for LCM adjustments and excess and/or obsolete items that may not be utilized in future periods.

Revenue Recognition

FPI sells a wide range of products and services to a diversified base of customers, primarily governmental departments, agencies and bureaus. Revenue is generally recognized when delivery has occurred or services have been rendered, persuasive evidence of an arrangement exists, there is a fixed or determinable price, and collectibility is reasonably assured. Revenue from contracts that require customer acceptance are not recognized until either customer acceptance is obtained, or upon completion of the contract. Provisions for anticipated contract losses are recognized at the time that they become evident.

Revenue is recognized on multiple element agreements for manufactured items when the product has been accepted by the customer. Revenue for services provided on behalf of FPI is recognized when the service provider presents a valid invoice including a customer acceptance or completion notice.

FPI records as other revenue the shipping and handling costs that have been billed to our customers. The cost of providing this service is recorded as a cost of other revenue.

Deferred revenue is comprised of customer cash advances, which have been paid to FPI prior to the manufacturing of goods, delivery of goods, or performance of services.

Other income is comprised primarily of imputed financing for retirement, health benefits and life insurance (Note 9).

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of an allowance for accumulated depreciation. Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Machinery & Equipment	5 - 25
Computer Hardware	5 - 10
Computer Software	3 - 5
Building & Improvements	24 - 40

Upon retirement or disposition of property and equipment, the related gain or loss is reflected in the statement of operations. Repairs and maintenance costs are expensed as incurred.

Notes to Financial Statements (Dollars in Thousands)

Taxes
As a wholly-owned corporation of the federal government, FPI is exempt from federal and state income taxes, gross receipts tax, and property taxes.

Reclassifications
Certain fiscal year 2002 amounts in the accompanying financial statements and notes thereto have been reclassified to conform to our current year presentation.

Note 3
Accounts Receivable, Net

Accounts receivable, net consists of the following:

September 30	2003	2002
Intragovernmental billed receivables	$ 64,141	92,349
Private sector billed receivables	6,398	5,568
	70,539	***97,917***
Less allowance for doubtful accounts	4,977	5,034
Accounts receivable, net	***$ 65,562***	***$ 92,883***

Note 4
Inventories, Net

Inventories, net consist of the following:

September 30	2003	2002
Raw materials	$ 44,029	$ 46,229
Raw materials – vehicles	24,941	24,886
Work-in-process	21,774	31,546
Finished sub-assemblies	7,546	7,816
Finished goods	37,973	30,951
Finished goods – acceptance contracts	20,137	12,215
	156,400	***153,643***
Less inventory allowance	9,698	11,796
Inventories, net	***$146,702***	***$141,847***

$24,941 of FPI's fiscal year 2003 and $24,886 of FPI's fiscal year 2002 raw materials balance represents vehicles and component parts that have been purchased on behalf of the Customs and Border Protection and Bureau of Immigration and Customs Enforcement of the Department of Homeland Security (DHS) for retrofit services that are performed by FPI. As part of an interagency agreement, DHS provides advance funding to FPI to procure these vehicles. Revenue is recognized by FPI at the time of shipment of retrofitted vehicles to DHS.

$20,137 of FPI's fiscal year 2003 and $12,215 of FPI's fiscal year 2002 finished goods balance represents goods that have been shipped to customers or their agents, but for which revenue has not been recognized because of acceptance criteria within the customer contract. A majority of this amount consists of systems furniture installations in progress.

Note 5
Property, Plant and Equipment, Net

Property, plant and equipment, net consists of the following:

September 30	2003	2002
Machinery and equipment	$ 89,943	$ 91,296
Computer hardware	3,096	2,740
Computer software	5,965	6,806
Buildings and improvements	164,259	166,321
	263,263	***267,163***
Less accumulated depreciation	147,095	140,072
	116,168	***127,091***
Factory construction-in-progress	213	111
Property, plant and equipment, net	***$116,381***	***$127,202***

Depreciation and amortization expense approximated $11,773 and $12,404 for the fiscal years ended September 30, 2003 and 2002, respectively.

As of September 30, 2003, various projects were in progress for the construction of new industrial facilities and the renovation of existing facilities. In this regard, BOP, on behalf of FPI, is planning to invest approximately $17,105, provided from their fiscal year 2002 and 2003 building and facilities appropriations, during the next fiscal year for the construction of buildings and improvements. In addition, during the next fiscal year, FPI is planning to invest approximately $12,051 for the purchase and construction of property, plant, and equipment.

Notes to Financial Statements (Dollars in Thousands)

Note 6
Other Accrued Expenses

Other accrued expenses consist of the following:

September 30	2003	2002
Permanent change of station	$ 2,411	$ 1,662
Information systems	614	3,614
FECA liability – current portion	936	764
Materials in Transit	2,369	2,067
Financial Audit Expense	946	900
Utilities	1,290	1,768
Other expense	1,511	1,894
Other accrued expenses	*$ 10,077*	*$ 12,669*

Note 7
Note Payable to United States Treasury

Congress has granted FPI borrowing authority pursuant to Public Law 100-690. Under this authority, FPI has borrowed $20,000 from the Bureau of Public Debt of the United States Treasury (the Treasury) with an extended lump-sum maturity date of September 30, 2008. The funds received under this note have been internally restricted for use in the construction of plant facilities and the purchase of equipment. The note accrues interest, payable March 31 and September 30 of each fiscal year at 5.5% (the rate equivalent to the yield of United States Treasury obligations of comparable maturities which existed on the date of a note maturity extension, granted in fiscal year 1998). Accrued interest payable under the note is either fully or partially offset to the extent FPI maintains non-interest bearing cash deposits with the Treasury. In this regard, there is no accrual of interest unless FPI's daily cash balance on deposit with the Treasury is less than the unpaid principal balance of all note advances received, as determined by a monthly calculation performed by the Treasury. When FPI's daily cash balance is less than the unpaid principal balance of all note advances received, interest is calculated by the Treasury on the difference between these two amounts. The note agreement provides for certain restrictive covenants and a prepayment penalty for debt retirements prior to 2008. Additionally, the agreement limits authorized borrowing in an aggregate amount not to exceed 25% of FPI's net equity.

There was no interest expense related to this note for the fiscal years ended September 30, 2003 and 2002.

Note 8
Business Segments

FPI's businesses are organized, managed and internally reported as eight operating segments based on products and services. These segments are Clothing and Textiles; Electronics; Fleet Management and Vehicular; Graphics; Industrial Products; Office Furniture; Recycling; and Services. These segments represent virtually all of FPI's product lines. FPI is not dependent on any single product as a primary revenue source; however, it is dependent on the federal government market for the sale of its products. FPI's net sales for the fiscal years ended September 30, 2003 and 2002 for each of its business segments is presented for comparative purposes:

Net Sales

Fiscal year ended September 30	2003	2002
Business Segment		
Clothing and Textiles	$158,399	$159,730
Electronics	152,357	132,662
Fleet Management and Vehicular	123,272	99,054
Graphics	23,658	26,006
Industrial Products	36,759	27,782
Office Furniture	151,996	217,852
Recycling	8,083	3,359
Services	12,239	12,210
Net sales	*$666,763*	*$678,655*

Regulatory Compliance

FPI's ability to add or to expand production of a specified product is regulated by the Federal Prison Industries Reform Act ("the Act"). The Act provides specific guidelines to FPI regarding its methodology for evaluating and reporting new or expanded products, including requiring FPI to provide direct notice to trade associations and interested parties of such actions. Finally, publication of annual decisions of the FPI Board of Directors and semi-annual sales disclosures are mandated under the Act.

Note 9
Intra-Department of Justice (DOJ)/ Intragovernmental Financial Activities

FPI's financial activities interact with and are dependent upon those of DOJ and the federal government as a whole. The following is a discussion of certain intra-DOJ and intragovernmental activities and their relationship with FPI:

Relationship with the Federal Bureau of Prisons
FPI and the Federal Bureau of Prisons (BOP) have a unique relationship in that the nature of their respective missions requires the sharing of facilities and responsibilities relative to the custody, training and employment of federal inmates. The Director of the BOP serves as the Chief Executive Officer of FPI and the Chief Operating Officer of FPI serves as an Assistant Director of the BOP. The BOP provides land to FPI for the construction of its manufacturing facilities and both FPI and BOP share certain facilities, generally at no cost to FPI.

Self Insurance
In accordance with federal government policy, FPI is uninsured with respect to property damage, product liability, and other customary business loss exposures. Losses incurred are absorbed as a current operating expense or, if they are induced by factors related to FPI's relationship with the Federal Prison System, may be reimbursed by BOP. Certain other costs, principally relating to personal injury claims, are paid directly by the federal government.

Federal Employees Compensation Act
The Federal Employees Compensation Act (FECA) provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job related injury or occupational disease. The United States Department of Labor (DOL), which administers FECA, annually charges each federal agency and department for its applicable portion of claims and benefits paid in the preceding year. As of September 30, 2003 and September 30, 2002, the accrued FECA liability as charged to FPI, approximated $936 and $737, respectively.

DOL also calculates the liability of the federal government for future claims and benefits, which includes the estimated liability of death, disability, medical, and other approved costs. Future claims and benefits are determined from an actuarial extrapolation, utilizing historical benefit payment patterns and calculations of projected future benefit payments discounted to current value over a 23.5 year period. FPI's estimated future liability approximated $7,932 and $7,935 at September 30, 2003 and 2002, respectively.

Retirement
Substantially all of FPI's civilian employees are covered under either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). For employees covered under CSRS (those employees hired prior to January 1, 1984), FPI contributes approximately 7.0 percent (for normal retirement) or 7.5 percent (for hazardous duty retirement) of each employee's salary. CSRS covered employees do not have Federal Insurance Contributions Act (FICA) withholdings and, thus, are not fully eligible to receive Social Security benefits. For employees covered under FERS, (generally those employees hired on or after January 1, 1984) FPI contributes 10.7 percent (for normal retirement) or 22.7 percent (for hazardous duty retirement).

Under FERS, employees also receive retirement benefits from Social Security and, if applicable, benefits from a defined contribution plan (thrift). Under the thrift plan, an employee may contribute (tax deferred) up to 13 percent of salary to an investment fund. FPI then matches this amount up to 5 percent. Those employees, which elected to remain under CSRS after January 1, 1984, continue to receive benefits in place, and may also contribute (tax deferred) up to 8 percent of their salary to the thrift plan, but with no matching amount contributed by FPI.

CSRS and FERS are multi-employer plans. Although FPI funds a portion of pension benefits relating to its employees, and provides for the necessary payroll withholdings, it does not maintain or report information with respect to the assets of the plans, nor does it report actuarial data with respect to accumulated plan benefits or the pension liability relative to its employees. The reporting of such amounts is the responsibility of the United States Office of Personnel Management.

FPI's contribution to both plans was approximately $24,314 and $22,340 for the years ended September 30, 2003 and 2002, respectively.

Notes to Financial Statements (Dollars in Thousands)

Health Benefits and Life Insurance

FPI, through the Office of Personnel Management (OPM), offers health and life insurance plans under which premium costs for health care are shared between FPI and the employees. A substantial portion of life insurance premiums are paid for by employees. Amounts paid by FPI for health benefits approximated $7,910 and $6,727 for the fiscal years ended September 30, 2003 and 2002, respectively.

OPM also provides health care and life insurance benefits for FPI's retired employees. Based on the requirements of SFFAS No. 5, FPI must recognize an expense related to its share of the cost of such post-retirement health benefits and life insurance on a current basis (while its employees are still working), with an offsetting credit to other income. Costs in this regard, which approximated $5,583 and $5,143 during the fiscal years ended September 30, 2003 and 2002, respectively, were determined by OPM utilizing cost factors which estimate the cost of providing post-retirement benefits to current employees. However, because of the offsetting credit, the recording of these costs has no impact on reported net income or cash flows.

Future post-retirement health care and life insurance benefit costs are not reflected as a liability on FPI's financial statements, as such costs are expected to be funded in future periods by OPM.

Note 10
Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of the following:

Selling, general and administrative expenses

Fiscal years ended September 30	2003	2002
Salaries, wages and benefits	$ 32,440	$ 29,714
Permanent change of station expense	3,453	1,901
Purchases of minor equipment	1,283	974
Contract services	9,410	9,388
Bad debt expense	2,903	4,957
Credit card services	1,452	1,733
Travel	2,139	2,020
Customer Goodwill	1,241	1,039
Personal Computer Expense	710	1,864
Depreciation	3,246	2,883
Gain or Loss on Disposition of Assets	1,741	194
Other Expense	9,604	10,482
Imputed pension costs (Note 9)	3,971	3,025
Imputed post-retirement health care and life insurance cost (Note 9)	5,583	5,143
Selling General and Administrative Expenses	$ 79,176	$ 75,317

Other expense is comprised primarily of inmate wages and certain sales and marketing expenses. Contract services consist primarily of consulting and sales and marketing fees. Salaries, wages and benefits are shown net of the imputed financing offsetting credit (Note 9).

Note 11
Commitments and Contingencies

Legal Contingencies

FPI is involved in various legal actions, including administrative proceedings, lawsuits, and claims. In the opinion of the organization's legal counsel, these suits are without substantial merit and should not result in judgments, which in the aggregate would have a material adverse effect on the organization's financial statements.

Lease Commitments

FPI leases certain facilities, machinery, vehicles and office equipment under noncancelable operating lease agreements that expire over future periods. Many of these lease agreements provide FPI with the option (after initial lease term) to either purchase the leased item at the then fair value or to renew the lease for additional periods of time. Future commitments for the next five years and thereafter are as follows: fiscal year 2004 $406, fiscal year 2005, $163, fiscal year 2006, $127, fiscal year 2007, $67, fiscal year 2008, $55, and fiscal years after 2008, $25. Rental expense approximated $1,025 and $1,640 for the fiscal years ended September 30, 2003 and 2002, respectively.

Product Warranty

FPI offers its customers a promise of an "Escape Proof Guarantee" on the products it manufactures. FPI Management has analyzed the historical pattern of sales returns and the adequacy of the sales returns and allowances. In this regard, Management has established an estimate of future returns related to current period product revenue.

Minimum Buy Agreements

FPI is obligated under certain "Minimum Buy" purchase agreements to procure a specified minimum quantity of raw materials. These agreements are generally related to the Clothing and Textiles and Electronics business groups. FPI has sufficient orders from customers at fiscal year end to satisfy the minimum purchase requirements.

Congressional Limitation on Administrative Expenses

Congress has imposed an annual spending limit on certain administrative expenses relating to FPI's central office management. These costs include salaries for management personnel, travel expenses and supplies. The following is a comparison of actual expenses to the limitation imposed:

Congressional limitation on administrative expenses

Fiscal years ended September 30	2003	2002
Congressional limitation on expenses	$ 3,429	$ 3,429
Expenses incurred subject to Congressional limitation	$ 1,432	$ 1,254

Report of Independent Auditors on Internal Control

PRICEWATERHOUSECOOPERS

Inspector General
U.S. Department of Justice

PricewaterhouseCoopers LLP
1301 K St., N.W., Suite 800W
Washington DC 20005-3333
Telephone (202) 414-1000
Facsimile (202) 414-1301

Board of Directors
Federal Prison Industries, Inc.
U.S. Department of Justice

We have audited the financial statements of the Federal Prison Industries, Inc., a financial reporting component of the U.S. Department of Justice referred to herein as FPI, as of September 30, 2003 and 2002, and for the years then ended, and have issued our report thereon dated November 11, 2003. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of FPI is responsible for establishing and maintaining accounting systems and internal control. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that: (1) transactions are properly recorded, processed, and summarized to permit the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America, and to safeguard assets against loss from unauthorized acquisition, use or disposition; (2) transactions are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements, and any other laws, regulations and government-wide policies identified in Appendix C of OMB Bulletin No. 01-02; and (3) transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by FPI management. Because of inherent limitations in any internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of FPI's financial statements, we obtained an understanding of the design of significant internal controls and whether they had been placed in operation, tested certain controls and assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited our control testing to those controls necessary to achieve the objectives described above and we did not test all controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. Our purpose was not to provide an opinion on FPI's internal controls. Accordingly, we do not express such an opinion.

With respect to internal controls relevant to data that support reported performance measures, we obtained an understanding of the design of significant internal controls relating to the existence and

completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal controls over reported performance measures. Accordingly, we do not provide an opinion on such controls.

We noted certain matters in FPI's internal controls that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the entity's ability to meet the internal control objectives described in the second paragraph. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. The reportable condition below is not considered a material weakness.

> Technical and security design and implementation of the SAP financial application need improvement.

The remainder of this report discusses the reportable condition in more detail. Our recommendations for corrective action and status of prior year findings and recommendations are also provided.

* * * * * * * * * *

Technical and security design and implementation of the SAP financial application need improvement

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Our testing of the SAP application environment responsible for processing FPI's financial transactions identified improvements needed to strengthen the design and implementation of its information security program. Specifically, we identified the following weaknesses:

- The SAP security strategy does not include specific strategies and policies that address the control of high-risk SAP security identification (ID) profiles and transactions, security re-certifications, and various security administration procedures.
- High-risk and/or vendor-supplied profiles have been assigned to user IDs. These user IDs allow users to process system and database updates across all functional and technical areas, which may not be detected in a timely manner.
- An excessive number of end-users had the ability to perform activities, such as table maintenance and batch processing through system-level transactions. The use of system-level transactions for these activities allows a user to bypass inherent controls that are built into the related business process transactions and could impact system performance.

- An excessive number of end-users were also identified with access to sensitive transactions and segregation of duty conflicts within the purchasing, payables, sales, and receivables functions.
- Some security administration procedures were not consistently followed to ensure that visibility and control over user access were properly monitored and addressed. For example, procedures have not been consistently implemented for monitoring unused user IDs, maintaining user access to reflect reengineered roles and to comply with the access requested on the user request form, and ensuring site security administrators cannot maintain their own access privileges.
- Password controls have not been fully addressed, such as populating the table of easily guessable passwords and properly setting the system parameter to control deletion of the powerful "SAP*" ID.
- Segregation of duties issues exist with respect to SAP Patch Teams who perform business configuration and programming. Specifically, the Teams have update access to both development and production environments.

Implementation of inconsistent security practices and configurations may lead to unauthorized access and/or modification, possibly causing corruption of the SAP financial application and production data through unauthorized, inadvertent, or malicious actions.

OMB A-130, Appendix III, *Security of Federal Automated Information Resources*, requires agencies to implement the practice of least privilege whereby user access is restricted to the minimum necessary to perform his or her job function; and enforce a separation of duties so that steps in a critical function are divided among different individuals. It also emphasizes the importance of management controls – such as individual accountability requirements, separation of duties enforced by access controls, and limitation on the processing privileges of individuals – to prevent and detect inappropriate or unauthorized activities.

According to National Institute of Standards and Technology (NIST) Special Publication NIST 800-12: *An Introduction to Computer Security*, "The Computer Security Act mandates that agencies develop computer security and privacy plans for sensitive systems." In addition, this publication mentions the importance of incorporating logical controls into systems.

Recommendations

We recommend FPI:

1. Review and update the existing SAP technical administration procedures and application level security design to ensure compliance with OMB A-130 and NIST 800-12.
2. Review and restrict the assignment of SAP-supplied and high-risk profiles in the production environment. Create custom profiles that restrict users to only the functionality needed to perform their specific job functions. In addition, implement monitoring controls to ensure that these procedures are followed.
3. Review and restrict the assignment of system-level transactions that provide access to perform table maintenance and batch processing.
4. Define segregation of duties conflicts at the transaction level to ensure that conflicts within a single role can be identified, in addition to conflicts among combined roles. Define all roles, including end-user and competency center roles with specific transaction codes, thereby reducing the risk of segregation of duties where transaction ranges are defined. Review the list of users with access to sensitive transactions to ensure that access is appropriate. In addition, where segregation of duties conflicts are identified that cannot be resolved, ensure that adequate compensating controls are in place to monitor access to sensitive transactions.
5. Take measures to ensure that existing procedures for providing visibility and control over user access is properly enforced. At a minimum, ensure that procedures have been fully implemented for monitoring and revoking unused IDs, providing guidelines for maintaining user access, and preventing site security administrators from maintaining their own access privileges.
6. Protect the powerful "SAP*" account by removing default profiles, locking the ID, and setting the system parameter to prevent the use of a default password if the ID is deleted. In addition, ensure password controls are in place to eliminate easily guessable passwords.
7. Implement the proposed strategy to restrict Application, Basis, and ERP personnel's access to the SAP production environment.

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Status of Prior Year Findings and Recommendations:

As required by *Government Auditing Standards* and OMB Bulletin 01-02, we have reviewed the status of FPI's corrective actions with respect to findings and recommendations identified in prior audits. The table below provides our assessment of the progress FPI has made in correcting the reportable conditions identified during these audits. We also provide the Office of the Inspector General (OIG) report number where the condition remains open, our recommendation for improvement, and the status of the condition as of the end of fiscal year 2003:

Report	Reportable Condition	Status
No. 03-30	**Material Weakness: The FPI information security program management and controls require improvement.**	
	Recommendations:	
	1) Ensure the risk assessment, security and contingency plans are updated on a periodic basis.	Completed (a)
	2) Formally document and implement access control policies.	Completed (a)
	3) Revoke network access of all terminated employees upon their exit from FPI.	Completed (a)
	4) Implement a log monitoring policy and document all activity.	Completed (a)
	5) Enforce employee compliance with SDLC policies and procedures.	Completed
	6) Require that system change requests be accompanied with formal documentation.	Completed
	7) Ensure the contingency plan is update periodically to reflect the current operating environment.	Completed (a)
	8) Document and perform routine and unscheduled maintenance on servers with critical data.	Completed
	9) Enforce established policies and procedures for consistent and secure system configurations and provide guidance on specific technical issues such as standard server security.	Completed
No. 03-30	Reportable Condition: Improvements are needed in FPI's development and implementation of accounting policies to ensure financial statements are prepared in accordance with generally accepted accounting principles.	

Report	Reportable Condition	Status
	Recommendations:	
	10) Continue to present service, installation, and shipping revenue as a part of FPI's sales and present the related expenses as cost of goods sold.	Completed
	11) Evaluate current policies and procedures for revenue recognition to ensure they address the types of transactions encountered in the field.	Completed
	12) Continue to monitor and review existing order entry processes to identify and correct the root cause of errors arising from this process.	Completed (a)
	13) Develop a process of estimating the average delivery time of products by product line and geography, and based on this information prepare month-end closing entries to reverse the estimated amount of undelivered products with F.O.B. destination terms that have been recognized as revenue in the general ledger.	Completed
	14) Develop and implement policies and procedures to address the applicability of Staff Accounting Bulletin 101, including contracts with multiple elements, bill and hold arrangements, and other non-standard sales transactions.	Completed
	15) Ensure that those tasked with the responsibility of preparing FPI accounting policies and the GAAP financial statements monitor new accounting developments to ensure that FPI policies and procedures are updated in a timely manner as standards change.	Completed
	16) Eliminate the practice of shipping products to a customer's facility without a valid purchase order or sales contract from the customer.	Completed
	17) Establish a formal policy for accruing and monitoring warranty reserves in order to ensure the adequacy of financial statement accruals and disclosures.	Completed

(a) This recommendation has been modified during FY 2003 and is now considered a management letter comment.

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We also noted other less significant matters involving FPI's internal controls that we will communicate to management in a separate letter.

This report is intended solely for the information and use of the U.S. Department of Justice Office of the Inspector General, the management of the Department of Justice, FPI's Board of Directors, the OMB, and Congress. This report is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

November 11, 2003

RESOLUTION

The Board directs that the practice of "pass-through" of finished goods items that would otherwise be manufactured by FPI be discontinued; and that customers be given the right to accept late delivery, or be granted an immediate waiver to purchase that portion of the order elsewhere; and that such transactions be tracked and documented."

BOARD APPROVED		October 24, 2002
Kenneth Rocks, Chairman		Kenneth Rocks
David Spears, Vice Chairman		David Spears
Donald Elliott, Director		
Diane Morales, Director		Diane Morales
Audrey Roberts, Director		Audrey Roberts

From: Steve Schwalb
To: ALL_UNICOR; CEO/All Sites; Hawk, Kathleen
Date: Fri, Nov 8, 2002 4:03 PM
Subject: Termination of "Pass-Through" practice

At their October 24, 2002 meeting, the Board of Directors adopted a resolution terminating the "Pass-Through" practice. The resolution reads, "The Board directs that the practice of 'pass-through' of finished goods items that would otherwise be manufactured by FPI be discontinued; and that customers be given the right to accept late delivery, or be granted an immediate waiver to purchase that portion of the order elsewhere; and that such transactions be tracked and documented."

THIS TERMINATION IS EFFECTIVE IMMEDIATELY. A revision to the Program Statement 8400.02, "Definition of Prison-Made Products and Services", dated 8-10-2000, is being drafted and will be distributed when completed.

Since most of our factories may not be familiar with the term "pass-through", let me define what we are talking about. There have been occasions in the past when FPI has received a customer order and has loaded the order into production, with the intent of producing it in the normal manner, using inmate labor. Subsequent to accepting the customer order, events such as work strikes, lockdowns, inclement weather or equipment failure have occurred and we have determined that the effect of these events will preclude FPI from meeting the delivery date committed to the customer. In these instances, FPI has on occasion exercised the option of buying the finished goods directly from one of our business partners and providing it directly to the customer without any inmate labor involved. To my knowledge, this practice has only been used in the office furniture group, but regardless, the Board's decision terminates this practice corporate-wide.

The Board decision requires that whenever we are going to be delinquent in producing an item and where we might otherwise have used "pass-through" as a means of achieving an on-time delivery, we shall instead now contact the customer and advise them of the delay and the projected revised delivery date. The customer will then be advised that they have the option of accepting from FPI the late delivery of the delinquent portion of the order (and they will also be advised of any applicable liquidated damages or late delivery penalties we will pay) or requesting a waiver of our mandatory source for that portion of the order so they may procure the item(s) from other sources. If the customer requests a waiver, it will be granted immediately.

The contact with the customer, the confirmation of their options and their decision will be documented in writing, with a copy provided to the General Manager. We will provide the Board with a report of all such instances at each future Board meeting.

As many of you know, we have employed the "pass-through" practice very infrequently, and only as a customer satisfaction measure. There is no other incentive for us to use this practice because it costs us money, provides no inmate work and the sales count against our annual sales ceiling. Nonetheless, the practice has become a greater irritation to many in the private sector than its value to FPI. Thus, we believe the Board's decision is prudent and strikes a balance between the interests of all the parties.

Let me express in advance my appreciation for the prompt and professional manner in which I know you will implement this decision. If you have any questions, please feel free to contact me.

CC: inet: audrey@weakley.aeneas.net; inet: diane.morales@osd.mil; inet: donrelliott@eaton.com; inet: krocks@fop5.org; inet: spearsd@kfbs.com; inet: Thomas.Carter@osd.mil; Murphy, Paul

Department of Defense Sales - FY2003

Electronics Business Group

FSC	Product	Sales
1005	Current Carrying Devices	262,123
1055	Launchers, Rockets & Pyrotechnics	6,380
1430	Guided Missile Remote Control Systems	48,299
1440	Current Carrying Devices	755
1680	Aircraft Accessories & Components	8,035
2920	Engine Electrical System Components, Non Aircraft	309,012
4010	Wire Rope Assemblies	29,059
4920	Aircraft Maintenance and Specialized Equipment	30,559
4935	Guided Missile Maintenance Equipment	88,636
5810	Communications Security Equipment and Components	180,828
5820	Radio Mounts	192,176
5855	Night Vision Equipment	25,943
5895	Miscellaneous Communications Equipment	855,093
5930	Electrical Switch Assemblies	5,197
5935	Connectors, Electrical	3,448,310
5965	Components for Speakers/Headsets/Mics	9,579,004
5975	Electrical Hardware and Supplies	12,487,753
5985	Antennas & Related Equipment	972,205
5995	Cable, Cord and Wire Assemblies	34,508,850
5998	Electrical Boards/Cards/Hardware	1,598,894
5999	Misellaneous Electrical and Electronic Components	2,503,751
6020	Fiber Optic Cable Assemblies & Harnesses	1,206,389
6110	Electrical Control Equipment	2,458,205
6130	Converters, Electrical, Non-Rotating	190,473
6135	Batteries, Non- Rechargeable	3,330,759
6140	Batteries, Rechargeable	244,344
6145	Wires/Cables, Electrical	3,360,853
6150	Misellaneous Electrical Power/Distribution Equipment	36,104,443
6160	Miscellaneous Battery Retaining Fixtures/Liners	1,141,679
6230	Electric Portable Hand Lighting Equipment	21,390,212
6625	Electrical & Electronic Measurement & Test Equipment	9,867
8470	Helmets	11,008,849
J051	Tool Kitting	485,688
J058	SINCGARS Kitting	12,481,157
J084	Equipment Assembly Services	95,306
	Total $	**160,649,086**

Clothing & Textiles Products Business Group

FSC	Product/Services	Sales
5140	Tool Bags	65
6532	Hospital/Surgical Clothing	21,523
6660	Meteorological Instruments	57,711
7210	Mattresses/Linens/Towels	9,104,101
7210	Disaster Blankets	1,538,590
7230	Draperies/Awnings/Shades	1,205,369
8105	Bags and Sacks	260,197
8305	Terrycloth	1,376,283
8340	Tents and Tarpaulins	136,963
8405	**Outerwear, Men's**	
8405	Dress Shirts, Men	2,147,862

8405	Utility Shirt, Men	5,101,756
8405	Medical Assistant Trouser	1,142,423
8410	Women's Shirts	1,612,728
8415	**Clothing, Special Purpose**	
8415	Battle Dress Uniform (BDU) Trousers	15,692,862
8415	Battle Dress Uniform (BDU) Coats	8,119,986
8415	Physical Fitness Uniform (PFU) Trunk	9,546,750
8415	Physical Fitness Uniform (PFU) Tshirt	8,594,219
8415	Physical Fitness Uniform (PFU) Jacket	6,774,817
8415	Physical Fitness Uniform (PFU) Pants	4,894,613
8415	Sweatpants/Sweatshirts	2,559,465
8415	Extreme Cold Weather Trouser	16,504,170
8415	Cold Weather Liner	2,415,509
8415	Men's Navy Utility Coveralls	1,977,087
8415	Flyer Helmet Bag	478,926
8415	Neck Gaitor	698,233
8415	Swim Trunks	228,800
8415	General Purpose Trunks	180,804
8415	Gloves, Glove Inserts, Utility Jackets	5,121,485
8420	Brown Undershirt	2,807,225
8465	Ammunition Cases/Canten Covers	4,300,156
8470	Body Armor Covers	5,032,999
K058	Radio Carrying Case Modification	616,532
	Total $	**120,250,209**

Industrial Products Business Group

FSC	Product	Sales
3920	Material Handling Equipment, Non Self Propelled	2,813
3990	Miscellaneous Material Handling Equipment	376,975
4140	Industrial Filters	61,269
4240	Safety & Rescue Equipment	6,715
5340	Miscellaneous Hardware	448,052
5660	Fencing, Fences and Gates	4,806
6540	Optical Instruments/Equipment	358,036
7105	Household Furniture	10,576,379
7125	Cabinets, Lockers, Bins and Shelving	4,084,404
7240	Household/Commercial Containers	280
7320	Kitchen Equipment and Appliances	2,318
9905	Signs, Ad Displays and I.D. Plates	2,291,508
	Total $	**18,213,555**

Services Business Group

FSC	Product/Service	Sales
7510	Office Suplies	1,050,397
7530	Stationery/Record Forms	626,039
7540	Standard Forms	12,090
7690	Miscellaneous Printed Matter	128,690
D303	Data Entry Services	8,050
D308	Drawing Conversion Services	18,766
D311	Data Conversion Services	36,522

D312	Optical Scanning Services		451,227
S209	Laundry Services		3,533,928
R604	Mail Distribution Services		6,019
T011	Printing & Binding Services		43,591
T099	Miscellaneous Printing Services		3,092,509
		Total $	**9,007,828**

Fleet Management Business Group

FSC	Product/Service		Sales
2590	Miscellaneous Vehicular Components		1,563,465
J023	Humvee Repair Services		910,479
J025	Vehicular Component Repair Services		4,020,514
J028	Engine and Turbine Repair Services		2,729,593
J039	Forklift Repair Service		3,067,835
K023	Retrofitting Services		6,683
		Total $	**12,298,569**

Office Furniture Business Group

FSC	Product		Sales
6645	Time Instruments		20,077
7110	Office Furniture		59,356,850
7195	Miscellaneous Furniture & Fixtures		1,259,637
		Total $	**60,636,564**

U.S. Department of Justice

UNICOR

Federal Prison Industries, Inc.
Washington, DC 20534

October 3, 2003

MEMORANDUM FOR ALL UNICOR STAFF

FROM: Steve Schwalb, Assistant Director
Industries, Education, and Vocational Training

SUBJECT: FY 2004 Operating Plan

Attached is the Federal Prison Industries Operating Plan for FY 2004.

The 2004 Operating Plan takes into account the continued challenges we face. These include the activation of new factories, declines in some business lines, war demand surges in others, and, the continued pursuit of new opportunities. Our highest priority continues to be providing job skills training to inmates, by offering great products and services to our customers, thereby remaining financially self-sustaining.

The measures announced in July on cost control measures and cash levels are already having some effect. This plan anticipates continued progress on those initiatives.

You will note that this plan is different from previous plans, in that it contains overall goals only for the corporation and for the business groups. It deliberately does not outline each individual factory's projections. We expect that in 2004, additional product adjustments will occur, unforseen opportunities will arise, and some additional factory reorganizations may be needed. Thus, each General Manager will work closely with the individual factories to ensure achievement of the goals detailed in the individual Memorandums of Understanding.

Our staff continue to be our key to success. Their commitment, professionalism, dedication, flexibility, and can-do spirit have inspired our inmate workforce, garnered customer support, generated new business, and, most of all, been the glue that holds together all the pieces of this great organization. There is no better group of people to face the challenges ahead.

I salute your accomplishments in 2003, and look forward to our mutual success in 2004!

Attachment

cc: Board of Directors
Regional Directors
Wardens

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FEDERAL PRISON INDUSTRIES
FY 2004 PROGRAM INVOICED SHIPMENTS AND EARNINGS PLAN COMPARED WITH FY 2003 ACTUAL ESTIMATES
(DOLLARS IN THOUSANDS)

	INVOICED SHIPMENTS TO OTHER AGENCIES		EARNINGS		EARNINGS PERCENTAGE	
	FY 2003	FY 2004	FY 2003	FY 2004	FY 2003	FY 2004
CLOTHING & TEXTILE	$158,400	$157,682	$25,661	$21,124	16.2%	13.4%
ELECTRONICS	152,357	139,611	38,089	25,549	25.0%	18.3%
FLEET MGMT AND VEHICULAR COMPONENTS	123,324	131,480	2,220	3,220	1.8%	2.4%
GRAPHICS	23,658	26,000	2,697	3,900	11.4%	15.0%
INDUSTRIAL PRODUCTS	36,759	39,000	(3,161)	0	-8.6%	0.0%
OFFICE FURNITURE	152,009	140,161	(2,280)	9,800	-1.5%	7.0%
RECYCLING	8,100	9,180	0	450	0.0%	4.9%
SERVICES	12,239	15,884	1,040	3,000	8.5%	18.9%
TOTALS	$666,846	$658,998	$64,266	$67,043	9.6%	10.2%
NET INDUSTRIAL INCOME			$64,266	$67,043	9.6%	10.2%
GENERAL AND ADMINISTRATIVE EXPENSE:			$64,700	$65,486		
PLUS INVESTMENT INCOME			$1,850	$1,500		
OTHER INCOME			$2,000	$2,000		
NET INCOME			$3,416	$5,057	0.5%	0.8%

FY 2004 OPERATING PLAN

BUSINESS GROUP SUMMARIES

INVOICED SHIPMENTS ($000) - FY 2004

PROGRAM	QTR 1	QTR 2	QTR 3	QTR 4	TOTAL
CLOTHING & TEXTILES	41,351	38,912	38,811	38,608	157,682
ELECTRONICS	33,359	35,210	35,210	35,831	139,611
FLEET MGMT/VEHIC CMPT	33,406	22,764	36,740	38,570	131,480
GRAPHICS	6,240	5,720	6,760	7,280	26,000
INDUSTRIAL PRODUCTS	10,530	9,750	8,970	9,750	39,000
OFFICE FURNITURE	39,036	34,230	30,708	36,187	140,161
RECYCLING	2,295	2,295	2,295	2,295	9,180
SERVICES	3,518	3,737	4,151	4,478	15,884
INVOICED SHIPMENTS	169,735	152,619	163,645	172,999	658,998

STOCK TRANSFERS ($000) - FY 2004

PROGRAM	QTR 1	QTR 2	QTR 3	QTR 4	TOTAL
CLOTHING & TEXTILES	400	400	400	400	1,600
ELECTRONICS	1,275	1,275	1,275	1,275	5,100
FLEET MGMT/VEHIC CMPT	82	107	133	133	455
GRAPHICS	88	88	86	88	350
INDUSTRIAL PRODUCTS	2,585	2,450	2,355	2,470	9,860
OFFICE FURNITURE	2,500	2,500	2,500	2,500	10,000
RECYCLING	0	0	0	0	0
SERVICES	0	0	0	0	0
STOCK TRANSFERS	6,930	6,820	6,749	6,866	27,365
% OF TOTAL INVOICED SHIPMENTS & STO's	3.9%	4.3%	4.0%	3.8%	4.0%

TOTAL INVOICED SHIPMENTS and STOCK TRANSFERS ($000) - FY 2004

PROGRAM	QTR 1	QTR 2	QTR 3	QTR 4	TOTAL
CLOTHING & TEXTILES	41,751	39,312	39,211	39,008	159,282
ELECTRONICS	34,634	36,485	36,485	37,106	144,711
FLEET MGMT/VEHIC CMPT	33,488	22,871	36,873	38,703	131,935
GRAPHICS	6,328	5,808	6,846	7,368	26,350
INDUSTRIAL PRODUCTS	13,115	12,200	11,325	12,220	48,860
OFFICE FURNITURE	41,536	36,730	33,208	38,687	150,161
RECYCLING	2,295	2,295	2,295	2,295	9,180
SERVICES	3,518	3,737	4,151	4,478	15,884
TOTAL INVOICED SHIPMENTS & STO's	176,665	159,439	170,394	179,865	686,363

FACTORY OVERHEAD COSTS ($000) - FY 2004

PROGRAM	QTR 1	QTR 2	QTR 3	QTR 4	TOTAL	% OF PROD. COSTS
CLOTHING & TEXTILES	12,460	12,375	12,369	12,379	49,583	35.9%
ELECTRONICS	8,000	8,444	8,444	8,593	33,481	28.1%
FLEET MGMT/VEHIC CMPT	4,750	4,900	4,950	5,100	19,700	15.3%
GRAPHICS	2,835	2,805	3,070	3,090	11,800	52.6%
INDUSTRIAL PRODUCTS	6,010	6,037	6,049	6,024	24,120	49.4%
OFFICE FURNITURE	15,536	13,624	12,222	14,402	55,784	39.7%
RECYCLING	2,289	2,289	2,289	2,291	9,158	104.9%
SERVICES	2,921	3,271	3,054	3,069	12,315	95.6%
TOTAL	54,801	53,745	52,447	54,948	215,941	
% OF TOTAL PRODUCTION COSTS	34.5%	37.3%	34.0%	33.9%	34.9%	

EARNINGS ($000) - FY 2004

PROGRAM	QTR 1	QTR 2	QTR 3	QTR 4	TOTAL	% of Inv. Shpmt
CLOTHING & TEXTILES	6,051	5,037	5,012	5,024	21,124	13.4%
ELECTRONICS	6,387	6,132	6,132	6,898	25,549	18.3%
FLEET MGMT/VEHIC CMPT	1,320	515	612	773	3,220	2.4%
GRAPHICS	798	678	1,107	1,317	3,900	15.0%
INDUSTRIAL PRODUCTS	0	0	0	0	0	0.0%
OFFICE FURNITURE	2,548	2,352	2,254	2,646	9,800	7.0%
RECYCLING	112	113	113	112	450	4.9%
SERVICES	510	420	930	1,140	3,000	18.9%
TOTAL - EARNINGS	17,726	15,247	16,160	17,910	67,043	
AS % OF TOTAL INVOICED SHIPMENTS	10.4%	10.0%	9.9%	10.4%	10.2%	

TOTAL INVENTORY ($000) - FY 2004

PROGRAM	QTR 1	QTR 2	QTR 3	QTR 4	*Average Inventory Turns
CLOTHING & TEXTILES	17,870	17,660	17,660	17,560	7.8
ELECTRONICS	28,567	28,864	29,162	29,757	4.1
FLEET MGMT/VEHIC CMPT	35,000	24,720	32,720	33,220	4.1
GRAPHICS	2,230	2,230	2,230	2,230	10.1
INDUSTRIAL PRODUCTS	7,181	7,319	7,326	7,446	6.7
OFFICE FURNITURE	24,931	22,458	20,808	20,873	6.3
RECYCLING	0	0	0	0	
SERVICES	310	310	310	310	41.6
TOTAL	116,089	103,561	110,216	111,396	5.6

* COST OF SALES/AVG INVENTORY

PLANNED INMATE EMPLOYMENT - FY 2004

PROGRAM	QTR 1	QTR 2	QTR 3	QTR 4
CLOTHING & TEXTILES	5,571	5,427	5,477	5,477
ELECTRONICS	2,967	3,031	3,126	3,190
FLEET MGMT/VEHIC CMPT	1,926	2,026	2,345	2,446
GRAPHICS	668	668	668	668
INDUSTRIAL PRODUCTS	1,410	1,410	1,410	1,410
OFFICE FURNITURE	3,875	3,875	3,875	3,875
RECYCLING	1,085	1,085	1,085	1,085
SERVICES	1,442	1,442	1,476	1,503
SUB-TOTAL	18,944	18,964	19,462	19,654
CENTRALIZED ACCOUNTS RECEIVABLE	70	70	70	70
CUSTOMER SERVICE CENTER	130	130	130	130
PRODUCT SUPPORT CENTER	175	175	175	175
TOTAL	19,319	19,339	19,837	20,029

ACTIVATIONS

FEDERAL PRISON INDUSTRIES
BUILDINGS AND IMPROVEMENTS (B&I)
FUNDING FOR BUILD-OUTS AT NEW FACTORIES
PLAN FOR FISCAL YEARS 2004-2006
(DOLLARS IN THOUSANDS)

9/30/03

LOCATION	FY2004	FY2005	FY2006
Bennettsville, SC		300	
Big Sandy, KY	60		
Butner III			750
Canaan, PA		750	
Carswell	125		
Coleman USP II			300
Forrest City Med.	60		
Fort Dix	200		
Gilmer, WV	60		
Hazleton, WV	60		
Herlong, CA		300	
La Tuna Conversion	60		
McCreary Co, KY	60		
Morgantown	150		
Petersburg	110		
Terre Haute USP II			750
Tuscon			450
Victorville USP	60		
Victorville Med II	60		

Williamsburg, SC		350	
Yazoo City Med.		250	
Factory Conversions	450		
Sub-total	1,515	1,950	2,250
Contingency 10%	152	195	225
Grand Total	$ 1,667	$ 2,145	$ 2,475

* Carryover from FY03 Activation

September 30, 2003

FEDERAL PRISON INDUSTRIES
MACHINERY AND EQUIPMENT (M&E)
PLAN FOR FISCAL YEARS 2004-2006
(DOLLARS IN THOUSANDS)

LOCATION	FY 2004	FY 2005	FY 2006
Allenwood WH		60	
Bennettsville, SC		1,000	
Big Sandy, KY*	264		
Big Spring WH	40		
Butner III			1,000
Canaan, PA		1,000	
Carswell	225		
Coleman USP/ Distr. Center*	140	10	
Coleman USP II			900

Forrest City Med.	1,100	350	
Fort Dix	200		
Gilmer, WV	1,969		
Hazleton, WV	450	100	
Herlong, CA		1,000	
La Tuna*	236		
Loretto WH	40		
McCreary Co., KY	900		
Morgantown*	626		
Petersburg Med.	50		
Tallahassee	1,000		
Terre Haute USP II			1,000
Tuscon			800
Victorville USP	500	1,500	
Victorville Med. II	550	1,450	
Williamsburg, SC	450	400	
Yazoo City Med.		900	
Factory Conversions	700		
Sub-total	9,440	7,770	3,700
Contingency 10%	944	777	370
Grand Total	$ 10,384	$ 8,547	$ 4,070

* Includes carryover from FY03 Activation Projects

September 30, 2003

BUILDINGS & IMPROVEMENTS
MACHINERY & EQUIPMENT

Federal Prison Industries
Buildings and Improvements/Machinery and Equipment
Fiscal Year 2004
Expenditure by Quarter

CLOTHING & TEXTILES BUSINESS GROUP

	1Q04	2Q04	3Q04	4Q04	Total
B&I	60,000	104,000	42,000	130,000	336,000
M&E	424,600	238,000	200,500	284,000	1,147,100

ELECTRONICS BUSINESS GROUP

	1Q04	2Q04	3Q04	4Q04	Total
B&I	275,000	0	0	0	275,000
M&E	1,205,720	86,500	22,500	15,000	1,329,720

FLEET MANAGEMENT & VEHICULAR COMPONENTS GROUP

	1Q04	2Q04	3Q04	4Q04	Total
B&I	65,000	150,000	200,000	0	415,000
M&E	375,000	233,500	0	20,000	628,500

GRAPHICS BUSINESS GROUP

	1Q04	2Q04	3Q04	4Q04	Total
B&I	0	0	0	0	0
M&E	122,500	112,500	62,500	62,500	360,000

INDUSTRIAL PRODUCTS BUSINESS GROUP

	1Q04	2Q04	3Q04	4Q04	Total
B&I	0	0	0	0	0
M&E	71,625	71,625	71,625	71,625	286,500

OFFICE FURNITURE BUSINESS GROUP

	1Q04	2Q04	3Q04	4Q04	Total
B&I	0	0	0	0	0
M&E	213,250	450,000	98,000	110,750	872,000

RECYCLING BUSINESS GROUP

	1Q04	2Q04	3Q04	4Q04	Total
B&I	0	0	0	0	0
M&E	119,000	90,000	6,000	0	215,000

SERVICES BUSINESS GROUP

	1Q04	2Q04	3Q04	4Q04	Total
B&I	100,000	0	0	0	100,000
M&E	743,700	0	0	0	743,700

SUPPORT BRANCHES

	1Q04	2Q04	3Q04	4Q04	Total
B&I	30,000	0	0	0	30,000
M&E	620,258	620,258	620,258	620,258	2,481,033

	1Q04	2Q04	3Q04	4Q04	Total
TOTAL B&I	530,000	254,000	242,000	130,000	1,156,000
TOTAL M&E	3,895,653	1,902,383	1,081,383	1,184,133	8,063,553

GENERAL & ADMINISTRATIVE EXPENSES

CENTRAL OFFICE
FY 2004 GENERAL AND ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSE:

BUSINESS GROUPS	2004 Position Request	Salaries	Personnel Benefits	Travel	Operating Expenses	Office Expenses	Other Expenses	2004 Request	Total 2004 Training	GRAND TOTAL FY 2004
Clothing & Textiles	16	1,260,000	415,000	80,000	0	30,000	169,000	1,954,000	29,000	1,983,000
Electronics	14	1,013,000	324,160	20,000	0	8,000	105,000	1,470,160	600	1,470,760
Fleet Management and Vehicular	11	917,000	282,000	96,000	8,000	15,000	325,000	1,643,000	20,000	1,663,000
Graphics	6	547,000	164,000	16,000	5,000	15,000	15,000	762,000	5,000	767,000
Industrial Products	9	811,182	219,019	64,664	10,000	32,000	71,109	1,207,974	0	1,207,974
Office Furniture	45	2,737,230	1,141,132	195,000	205,000	61,000	1,323,638	5,663,000	0	5,663,000
Recycling	7	533,153	175,940	33,600	11,000	6,000	185,000	944,693	16,000	960,693
Services	12	847,000	263,000	106,000	115,000	85,000	580,000	1,996,000	25,000	2,021,000
TOTAL BUSINESS GROUPS	120	8,665,565	2,984,251	611,264	354,000	252,000	2,773,747	15,640,827	95,600	15,736,427
CENTRALIZED ACCOUNTS RECEIVABLE	22	971,000	391,000	8,000	202,000	53,000	4,063,000	5,688,000	1,000	5,689,000
CORPORATE COMMUNICATION & DESIGN BRANCH	1	97,349	21,417	30,000	0	27,000	773,669	949,435	2,000	951,435
CORPORATE MANAGEMENT	8	842,014	237,179	69,593	25,656	31,326	111,488	1,317,256	6,860	1,324,116
CORPORATE MARKETING BRANCH	9	592,058	130,253	50,000	16,000	123,000	1,350,000	2,261,311	18,000	2,279,311
CUSTOMER SERVICE CENTER	22	1,426,023	614,037	15,000	849,923	132,050	12,250	3,049,283	11,000	3,060,283
FINANCIAL MANAGEMENT BRANCH	29	1,744,647	627,473	60,318	22,032	58,776	63,769	2,577,015	42,957	2,619,972
INTERAGENCY CUSTOMER SOLUTIONS GROUP	5	432,727	142,800	40,000	12,657	20,000	7,000	655,184	10,000	665,184

CENTRAL OFFICE
FY 2004 GENERAL AND ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSE (cont'd.):

	2004 Position Request	Salaries	Personnel Benefits	Travel	Operating Expenses	Office Expenses	Other Expenses	2004 Request	Total 2004 Training	GRAND TOTAL FY 2004
MANAGEMENT INFORMATION SYSTEMS BRANCH	113	7,663,160	1,808,244	454,168	3,526,703	941,646	1,479,994	15,873,915	59,085	15,933,000
PROCUREMENT BRANCH	11	711,205	192,026	25,000	5,000	56,000	138,000	1,127,231	150,000	1,277,231
PRODUCT SUPPORT CENTER, ENGLEWOOD	52	3,170,000	982,700	170,000	489,600	243,700	170,000	5,226,000	143,500	5,369,500
QUALITY & PRODUCTIVITY IMPROVEMENT BRANCH	2	208,118	79,085	8,000	0	5,025	0	300,228	17,200	317,428
RESEARCH, ACTIVATION, AND CORPORATE SUPPORT	19	1,486,906	371,727	50,527	4,743	28,594	42,576	1,985,073	8,417	1,993,490

SUB-TOTAL - ADMINISTRATIVE EXPENSE:										
SUB-TOTAL	413	28,010,772	8,582,192	1,591,870	5,508,314	1,972,117	10,985,493	56,650,758	565,619	57,216,377
OTHER ADMINISTRATIVE EXPENSE:								0	0	0

FY 2004 ADMINISTRATIVE EXPENSE	56,650,758	565,619	57,216,377

CENTRAL OFFICE
FY 2004 GENERAL AND ADMINISTRATIVE EXPENSES

GENERAL EXPENSE:

FACILITIES EXPENSE	1,040,986	1,040,986
INCENTIVE AWARDS/GAINSHARING	400,000	400,000
RELOCATION (PCS)	2,000,000	2,000,000
EMPLOYEE DEVELOPMENT (TRAINEE & TRAINING)	670,000	670,000
GOODWILL	1,500,000	1,500,000
GSA FREIGHT SERVICE FEE	280,000	280,000
COMMUTER EXPENSE	110,000	110,000
DEPRECIATION ON BUILDING	670,000	670,000
FORM AND CONT	1,099,014	1,099,014
OTHER (emergency repairs, etc)	500,000	500,000
FY 2004 GENERAL EXPENSE	8,270,000	8,270,000

FY 2004 - TOTAL CENTRAL OFFICE GENERAL AND ADMINISTRATIVE EXPENSES	64,920,758	65,486,377

REINTEGRATION TOOLS - PROGRAM DESCRIPTION:

Federal Prison Industries

Federal Prison Industries, Inc. (FPI) is a critical component of the Bureau of Prisons' efforts to prepare inmates to successfully reenter society. Inmates who work in the FPI program are 24 percent less likely to commit crimes and 14 percent more likely to be employed after release, when compared to similar inmates who did not have FPI program experience. These research findings have been favorably reviewed by nationally respected social scientists and economists.

The FPI program is focused in higher security institutions - - those that generally have the most serious offenders. Seventy-six (76) percent of inmates working in the FPI program have been convicted of drug trafficking, weapons, and violent offenses. Research shows that these inmates are also the most likely to return to criminal behavior if they have not acquired good work skills before release from prison.

The FPI program is unique among BOP inmate programs in that it operates at no cost to the taxpayer. By statute, the FPI program is self-sustaining and receives no appropriated funds for its operations. But, the FPI program's purpose is not to be a business that generates revenue. It is a correctional program. Although the FPI program produces products and performs services, the real output of the FPI program is inmates who are more likely to return to society as law-abiding taxpayers because of the job skills training and work experience they received in the FPI program.

The FPI program factories are operated by civilian supervisors and managers, training and overseeing the work of inmates. The factories utilize raw materials and component parts purchased from private vendors to produce finished goods. The FPI program's major customers include the Department of Defense, the Department of Justice, the U.S. Postal Service, and the General Services Administration. The FPI program provides a wide variety of products and services, such as: electronics, clothing and textiles, furniture, warehouse shelving, equipment repair services, vehicle retrofit services, automated data processing services, call center services, and recycling activities.

Revenues are derived from the sale of products and services to Federal customers, government institutions, and other entities. All of the FPI program operating expenses, such as the cost for raw materials and supplies, inmate wages, staff salaries, and capital expenditures are paid from sales revenue. The FPI program earnings are reinvested to improve existing facilities, build new factories, purchase equipment, maintain manufacturing capability and to provide working capital. The FPI program makes capital investments in building and improvements, machinery and equipment as necessary in order to conduct industrial operations.

Inmate training is extensive, since most of the inmates have no previous training, experience or skills. Much of the needed training occurs on-the-job, with civilian supervisors and experienced inmates explaining and demonstrating the work to newly assigned inmates. Classroom instruction is provided by FPI program staff, when more formal training is required, for skills such as soldering.

By statute, the FPI program's Board of Directors is composed of six members representing Industry, Labor, Retailers and Consumers, Agriculture, the Secretary of Defense and the Attorney General.

FPI's sales have declined following passage of Sections 811 and 819 of the National Defense Authorization Acts of 2002 and 2003. This has primarily impacted FPI's office furniture and textiles programs, which comprise the majority of FPI's sales. These two business groups represent 53 percent of total revenue, 62 percent of planned earnings, and 53 percent of inmate employment for the corporation. For the fiscal year ended September 30, 2003, factory earnings were $25.1 million below plan for these two business groups, and net corporate earnings were 87 percent below plan. In response, FPI has realigned factories, worked to substantially reduce operating costs, continues to improve customer relationships and develop other innovative strategies.

The BOP is scheduled to activate 16 new institutions between 2004 and 2006, with a collective capacity of more than 17,000 inmates. Seven of the new institutions will be high security penitentiaries. The remaining nine will be medium security facilities. Further, these institutions will house inmates at the two highest security levels, and inmates who are most in need of job skills training in order to reduce their likelihood of re-offending after release. The BOP relies heavily on the FPI program to provide work opportunities for approximately 25 percent of the higher security inmate population, in order to reduce inmate idleness and enhance safe prison management.

General and special funds—Continued

[BUILDINGS AND FACILITIES]—Continued

Object Classification (in millions of dollars)

Identification code 15–1003–0–1–753		2003 actual	2004 est.	2005 est.
11.1	Personnel compensation: Full-time permanent	19	17	11
12.1	Civilian personnel benefits	7	6	4
21.0	Travel and transportation of persons	2	1	1
23.2	Rental payments to others	9	2	12
23.3	Communications, utilities, and miscellaneous charges	11		1
25.2	Other services	389	217	526
26.0	Supplies and materials	20	3	5
31.0	Equipment	13	1	2
32.0	Land and structures	10	1	8
99.9	Total new obligations	480	240	570

Personnel Summary

Identification code 15–1003–0–1–753		2003 actual	2004 est.	2005 est.
	Direct:			
1001	Total compensable workyears: Civilian full-time equivalent employment	273	313	108

Intragovernmental funds:

FEDERAL PRISON INDUSTRIES, INCORPORATED

The Federal Prison Industries, Incorporated, is hereby authorized to make such expenditures, within the limits of funds and borrowing authority available, and in accord with the law, and to make such contracts and commitments, without regard to fiscal year limitations as provided by section 9104 of title 31, United States Code, as may be necessary in carrying out the program set forth in the budget for the current fiscal year for such corporation, including purchase (not to exceed five for replacement only) and hire of passenger motor vehicles. *(Division B, H.R. 2673, Consolidated Appropriations Bill, FY 2004.)*

Program and Financing (in millions of dollars)

Identification code 15–4500–0–4–753		2003 actual	2004 est.	2005 est.
	Obligations by program activity:			
09.01	Production expenses	678	739	692
09.02	Administrative expenses	1	3	3
09.03	Other expenses	38	40	40
09.09	Total operating expenses	717	782	735
09.10	Buildings and improvements		1	2
09.11	Machinery and equipment	2	6	7
09.19	Total capital investment	2	7	9
10.00	Total new obligations	719	789	744
	Budgetary resources available for obligation:			
21.40	Unobligated balance carried forward, start of year	12	19	27
22.00	New budget authority (gross)	726	797	731
23.90	Total budgetary resources available for obligation	738	816	758
23.95	Total new obligations	−719	−789	744
24.40	Unobligated balance carried forward, end of year	19	27	14
	New budget authority (gross), detail:			
	Discretionary:			
68.00	Spending authority from offsetting collections: Offsetting collections (cash)	3	3	3
	Mandatory:			
69.00	Offsetting collections (cash)	751	794	728
69.10	Change in uncollected customer payments from Federal sources (unexpired)	−28		
69.90	Spending authority from offsetting collections (total mandatory)	723	794	728
70.00	Total new budget authority (gross)	726	797	731
	Change in obligated balances:			
72.40	Obligated balance, start of year	56	168	160
73.10	Total new obligations	719	789	744
73.20	Total outlays (gross)	−675	−797	−731
74.00	Change in uncollected customer payments from Federal sources (unexpired)	20		
74.40	Obligated balance, end of year	168	160	171
	Outlays (gross), detail:			
86.90	Outlays from new discretionary authority	3	3	3
86.97	Outlays from new mandatory authority	672	794	728
87.00	Total outlays (gross)	675	797	731
	Offsets:			
	Against gross budget authority and outlays:			
88.00	Offsetting collections (cash) from: Federal sources	−754	−797	−731
	Against gross budget authority only:			
88.95	Change in uncollected customer payments from Federal sources (unexpired)	28		
	Net budget authority and outlays:			
89.00	Budget authority			
90.00	Outlays	−79		
	Memorandum (non-add) entries:			
92.01	Total investments, start of year: Federal securities: Par value	85	162	85
92.02	Total investments, end of year: Federal securities: Par value	162	85	85

Federal Prison Industries, Inc., was created by Congress in 1934 and is a wholly-owned Government corporation. Its mission is to employ and train Federal inmates through a diversified program providing products and services to other Federal agencies. These operations are conducted in such a manner as to offer a minimum of competition to private industry and labor. Employment provides inmates with work, occupational knowledge and skills, plus money for personal expenses and family assistance.

The Corporation strives to provide additional industrial employment opportunities at existing and planned institutions.

Budget program.—Federal Prison Industries, Inc., operations are entirely self-sustaining, and no appropriations are required for its operations. The amounts used by the Corporation for administrative expenses are subject to a congressional limitation. Information regarding this limitation is provided separately following this account.

Financing program.—Revenues are derived entirely from the sale of products and services to other Federal agencies. Operating expenses are applied against these revenues, resulting in operating income or loss. Earnings surplus to the needs of the manufacturing operations, capital improvements and cash reserves are used to pay accident compensation.

Operating results.—To date, Federal Prison Industries, Inc., has returned to the Treasury a total of $82 million of retained income excess to the Corporation's needs. No contributions from budget authority have been made to offset deficits for non-revenue producing outlays since the inception of the fund.

Object Classification (in millions of dollars)

Identification code 15–4500–0–4–753		2003 actual	2004 est.	2005 est.
	Personnel compensation:			
11.1	Full-time permanent	99	105	110
11.5	Other personnel compensation	6	9	9
11.8	Special personal services payments	44	50	52
11.9	Total personnel compensation	149	164	171
12.1	Civilian personnel benefits	53	68	71
21.0	Travel and transportation of persons	3	5	5
22.0	Transportation of things	4	17	17
23.2	Rental payments to others	1	2	2
23.3	Communications, utilities, and miscellaneous charges	15	15	16
24.0	Printing and reproduction	6	10	10
25.2	Other services	28	33	30
26.0	Supplies and materials	457	465	410
31.0	Equipment	2	6	7
32.0	Land and structures		1	2
93.0	Limitation on expenses	1	3	3
99.0	Reimbursable obligations	719	789	744
99.9	Total new obligations	719	789	744

Personnel Summary

Identification code 15–4500–0–4–753	2003 actual	2004 est.	2005 est.
Reimbursable:			
2001 Total compensable workyears: Civilian full-time equivalent employment	1,653	2,174	2,220

LIMITATION ON ADMINISTRATIVE EXPENSES, FEDERAL PRISON INDUSTRIES, INCORPORATED

Not to exceed $3,429,000 of the funds of the corporation shall be available for its administrative expenses, and for services as authorized by 5 U.S.C. 3109, to be computed on an accrual basis to be determined in accordance with the corporation's current prescribed accounting system, and such amounts shall be exclusive of depreciation, payment of claims, and expenditures which such accounting system requires to be capitalized or charged to cost of commodities acquired or produced, including selling and shipping expenses, and expenses in connection with acquisition, construction, operation, maintenance, improvement, protection, or disposition of facilities and other property belonging to the corporation or in which it has an interest. *(Division B, H.R. 2673, Consolidated Appropriations Bill, FY 2004.)*

Object Classification (in millions of dollars)

Identification code 15–4500–0–4–753	2003 actual	2004 est.	2005 est.
11.1 Personnel compensation: Full-time permanent	1	1	1
26.0 Supplies and materials		2	2
93.0 Limitation on expenses	−1	−3	−3
99.0 Limitation acct—reimbursable obligations			

Personnel Summary

Identification code 15–4500–0–4–753	2003 actual	2004 est.	2005 est.
7001 Total compensable workyears: Civilian full-time equivalent employment	32	32	32

Trust Funds

COMMISSARY FUNDS, FEDERAL PRISONS

(TRUST REVOLVING FUND)

Program and Financing (in millions of dollars)

Identification code 15–8408–0–8–753	2003 actual	2004 est.	2005 est.
Obligations by program activity:			
09.01 Reimbursable program	237	250	258
10.00 Total new obligations	237	250	258
Budgetary resources available for obligation:			
21.40 Unobligated balance carried forward, start of year	47	38	31
22.00 New budget authority (gross)	228	243	249
23.90 Total budgetary resources available for obligation	275	281	280
23.95 Total new obligations	−237	−250	−258
24.40 Unobligated balance carried forward, end of year	38	31	22
New budget authority (gross), detail:			
Mandatory:			
69.00 Offsetting collections (cash)	228	243	249
Change in obligated balances:			
72.40 Obligated balance, start of year	26	27	27
73.10 Total new obligations	237	250	258
73.20 Total outlays (gross)	−236	−250	−257
74.40 Obligated balance, end of year	27	27	28
Outlays (gross), detail:			
86.97 Outlays from new mandatory authority	228	243	249
86.98 Outlays from mandatory balances	8	7	8
87.00 Total outlays (gross)	236	250	257

Offsets:			
Against gross budget authority and outlays:			
88.40 Offsetting collections (cash) from: Non-Federal sources	−228	−243	−249
Net budget authority and outlays:			
89.00 Budget authority			
90.00 Outlays	8	7	8
Memorandum (non-add) entries:			
92.01 Total investments, start of year: Federal securities: Par value			53
92.02 Total investments, end of year: Federal securities: Par value		53	55

Budget program.—The commissary fund consists of the operation of commissaries for the inmates as an earned privilege.

Financing.—Profits are derived from the sale of goods and services to inmates. Sales for 2005 are estimated at $249 million. Adequate working capital is assured from retained earnings.

Operating results.—Profits received are used for programs, goods, and services for the benefit of inmates.

Object Classification (in millions of dollars)

Identification code 15–8408–0–8–753	2003 actual	2004 est.	2005 est.
Personnel compensation:			
11.1 Full-time permanent	24	26	27
11.5 Other personnel compensation	1	1	1
11.8 Special personal services payments	32	33	34
11.9 Total personnel compensation	57	60	62
12.1 Civilian personnel benefits	11	11	12
25.2 Other services	11	11	11
26.0 Supplies and materials	155	165	170
31.0 Equipment	3	3	3
99.9 Total new obligations	237	250	258

Personnel Summary

Identification code 15–8408–0–8–753	2003 actual	2004 est.	2005 est.
Reimbursable:			
2001 Total compensable workyears: Civilian full-time equivalent employment	514	694	711

OFFICE OF JUSTICE PROGRAMS

Federal Funds

General and special funds:

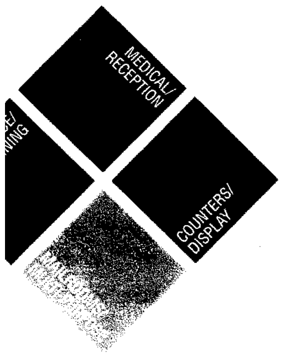
JUSTICE ASSISTANCE

[For grants, contracts, cooperative agreements, and other assistance authorized by title I of the Omnibus Crime Control and Safe Streets Act of 1968, the Missing Children's Assistance Act, including salaries and expenses in connection therewith, the Prosecutorial Remedies and Other Tools to end the Exploitation of Children Today Act of 2003 (Public Law 108–21), and the Victims of Crime Act of 1984, $190,125,000, to remain available until expended.]

For grants, contracts, cooperative agreements, and other assistance authorized by title I of the Omnibus Crime Control and Safe Streets Act of 1968, (the "1968 Act"), the Missing Children's Assistance Act, the Juvenile Justice and Delinquency Prevention Act of 1974 (the "1974 Act"), the Victims of Child Abuse Act of 1990 (the "1990 Act"), the Violent Crime Control and Law Enforcement Act of 1994 (the "1994 Act"), the Victims of Trafficking and Violence Protection Act of 2000 (the "2000 Act"), the DNA Analysis Backlog Elimination Act of 2000 (the "DNA Act"), the Crime Identification and Technology Act of 1998, the Homeland Security Act of 2002, and the Prison Rape Elimination Act of 2003, $1,710,664,000, to remain available until expended. Of the amounts provided:

(1) for counterterrorism research and development, as authorized by the Homeland Security Act of 2002, $7,000,000;

(2) for improving the criminal justice system, $861,577,000 as follows:

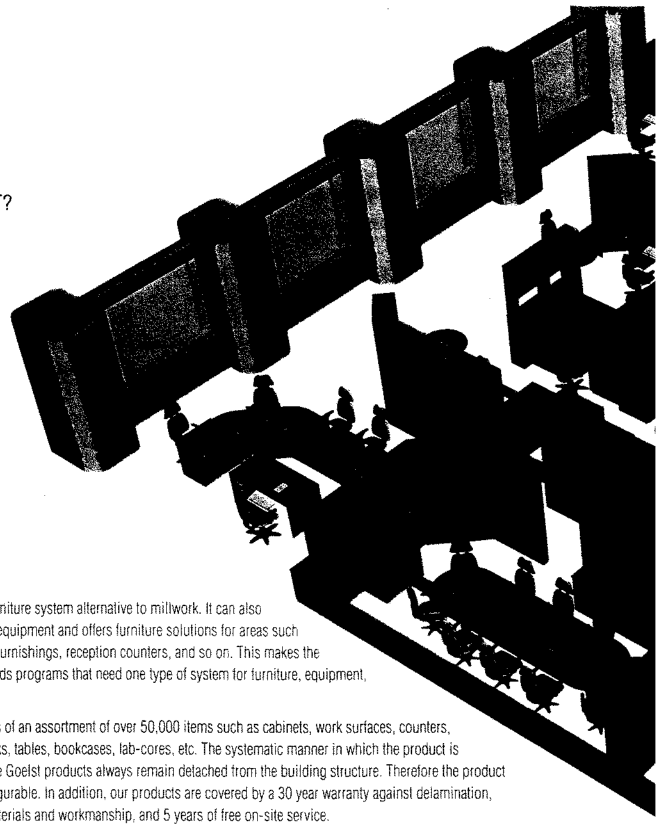


UNICOR

Presents

GOELST®

WHAT IS GOELST?



Goelst is a laminate furniture system alternative to millwork. It can also be used as modular lab equipment and offers furniture solutions for areas such as offices, patient room furnishings, reception counters, and so on. This makes the product ideal for standards programs that need one type of system for furniture, equipment, and built-ins.

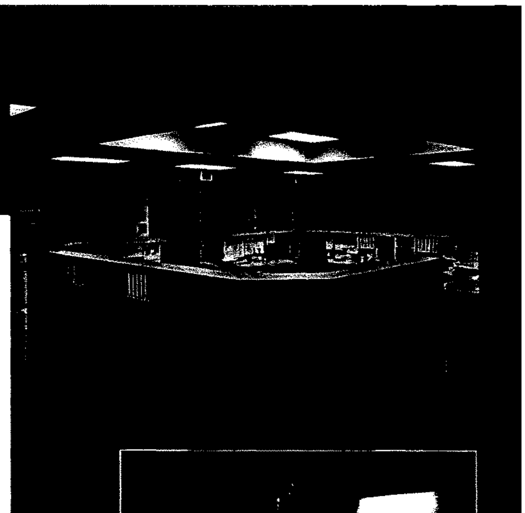
The product consists of an assortment of over 50,000 items such as cabinets, work surfaces, counters, wardrobes, lockers, desks, tables, bookcases, lab-cores, etc. The systematic manner in which the product is installed ensures that the Goelst products always remain detached from the building structure. Therefore the product is moveable and reconfigurable. In addition, our products are covered by a 30 year warranty against delamination, 10 years on all other materials and workmanship, and 5 years of free on-site service.

Goelst products are successfully used in such diverse spaces as offices, mail rooms, break rooms, labs, pharmacies, clinics, operating rooms, emergency rooms, retail stores, banks, libraries, locker rooms, and many other types of spaces. They provide modular solutions as work stations, storage systems, mail sorters, kitchen cabinets, lab benches, pick stations, exam and procedure room cabinets, instrument storage, triage desks, checkout counters, teller lines, study carrels, lockers, and more.

In other words, Goelst is not just a product line, it is an environment. With Goelst, the customer can make dramatic changes to the process by which plastic laminate millwork and equipment are procured, delivered, and installed. Our process allows you to buy our products directly from UNICOR rather than having them included in the inherently inefficient and unreliable construction process. The Goelst-UNICOR team makes painful things such as bidding, shop drawings, nonperformance, 90 day warranties and no after-the-sale service things of the past!

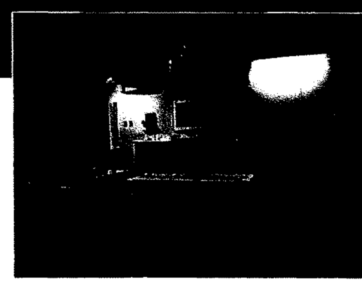
In short, Goelst products make what was once nonstop hassle into a simple process with dependable partners, top notch quality, and terrific consistency in delivery, price, and service.

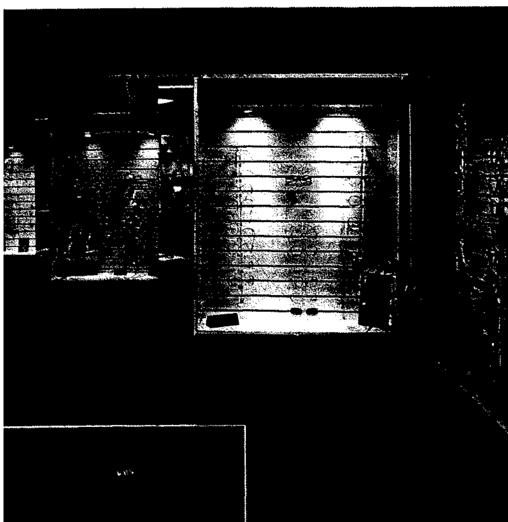
MEDICAL/RECEPTION



In the healthcare arena Goelst truly does it all, from the patient registration desk, to the cashiers' area, and everything in between.

The sheer breadth of the product line allows facilities to set one standard for furniture, equipment and built-ins, and in one fell swoop make all these items and areas modular, moveable, reconfigurable and depreciable as furniture. Imagine all that with *one* system! Having *one* standard that applies to so many areas ensures that the product truly can be moved from area to area, greatly enhancing the likelihood that items will be reused, rather than sitting in a warehouse somewhere, never to be used again.

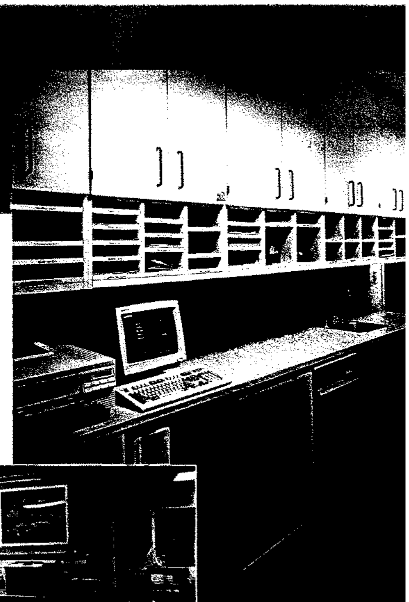




The Goelst product is a sound solution for government agencies who have internal or external retail store applications, catalog shopping or museum displays, and must have furniture to accommodate these needs. This product allows rapid installation, easy add-ons, instant reconfiguration, and durability, making it the perfect choice for both the counter/display in the storefront or back office.

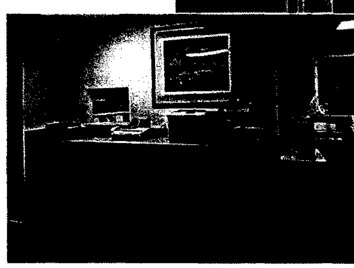
Goelst offers many catalog solutions clients typically think of as custom products. However, with the immense array of custom and near custom finishes, the product is capable of creating a very unique and distinct visual identity for each individual client, while maintaining the ability to be moved, reconfigured, and added on to, with a huge assortment of standard items.

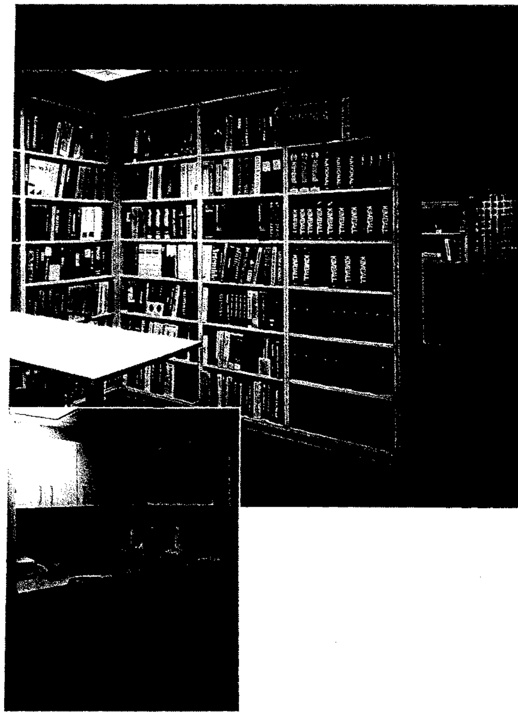
MAILROOMS/MULTI-PURPOSE



The federal government customer uses Goelst in applications from offices to service counters to mailrooms and storage spaces. The entire Goelst product line of 50,000 plus items is now available exclusively through the UNICOR contract for federal government customers. The product has been successfully used in a variety of facilities such as courthouses, veteran medical centers, civilian and military personnel processing areas and military hospitality and barracks.

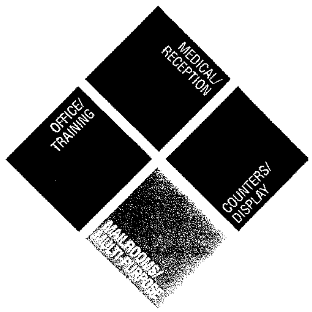
In a time when government is looking for cost saving options in leased spaces, and furnishings are not part of the lease, Goelst can be the perfect solution. The Goelst product gives the custom built-in look and feel of a permanent space but is easily removed and reconfigurable when the lease is up.





For the office, Goelst has solutions for a variety of spaces. The product lends itself well for back room applications such as mailrooms, break rooms, storage spaces, and refreshment centers. In addition, this product can be used to create a small bookcase storage area or an entire built-in custom bookcase wall.

In other words, the product is equally at home as the leading player in custom built-in applications or as a complementary back drop to UNICOR's laminate or wood case good furniture lines.


MEDICAL/
RECEPTION
OFFICE/
TRAINING
COUNTERS/
DISPLAY